# Kaisa Health Group Holdings Limited
# 佳 兆 業 健 康 集 團 控 股 有 限 公 司

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

(Stock Code 股份代號: 876)

## Annual Report 2020 年報

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# CORPORATE INFORMATION

## DIRECTORS

### Executive Directors

Mr. Zhang Huagang *(Chairman)*
Mr. Luo Jun *(Co-Vice Chairman and Chief Executive Officer)*
Mr. Wu Tianyu *(Co-Vice Chairman)*
Mr. Kwok Ying Shing

### Independent Non-executive Directors

Dr. Liu Yanwen
Dr. Lyu Aiping
Ms. Li Yonglan

## AUDIT COMMITTEE

Dr. Liu Yanwen *(Chairman)*
Dr. Lyu Aiping
Ms. Li Yonglan

## REMUNERATION COMMITTEE

Dr. Lyu Aiping *(Chairman)*
Mr. Wu Tianyu
Dr. Liu Yanwen

## NOMINATION COMMITTEE

Mr. Zhang Huagang *(Chairman)*
Dr. Lyu Aiping
Dr. Liu Yanwen

## COMPANY SECRETARY

Mr. Yu Kwok Leung

## AUTHORISED REPRESENTATIVES

Mr. Luo Jun
Mr. Yu Kwok Leung

## INDEPENDENT AUDITOR

Grant Thornton Hong Kong Limited
Certified Public Accountants

## LEGAL ADVISERS

### Hong Kong

Sidley Austin

### Bermuda

Conyers Dill & Pearman

## PRINCIPAL BANKERS

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

## REGISTERED OFFICE

Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

## HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

30/F, The Center
99 Queen's Road Central
Central, Hong Kong

## SHARE REGISTRARS

### Bermuda Principal

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

### Hong Kong Branch

Tricor Tengis Limited
Level 54, Hopewell Centre
183 Queen’s Road East
Hong Kong

## STOCK CODE

876

## COMPANY WEBSITE

www.kaisahealth.com

# CHIEF EXECUTIVE OFFICER'S STATEMENT

Dear Shareholders,

On behalf of the board (the "Board") of directors (the "Directors") of Kaisa Health Group Holdings Limited, (the "Company"), I hereby present the audited consolidated results of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2020. During the year, the Group achieved revenue of approximately HK$183.8 million (2019: approximately HK$251.6 million), representing a decrease of 27% as compared with last year. Loss attributable to the shareholders of the Company was HK$39.7 million (2019: loss of approximately HK$354.7 million). Loss per share was 0.79 HK cents (2019: loss per share of 7.03 HK cents). The Board did not recommend the payment of dividend for the year.

## BUSINESS REVIEW

### Dental Prosthetics Business

The Dental Prosthetics Business was acquired in May 2015. Revenue and earnings contributed from the Dental Prosthetics Business continued to grow steadily. The Group has an extensive sales and service network covering more than 20 European and American countries and regions including the US, Germany, Britain, France, Italy and Australia. As the leading enterprise in the Dental Prosthetics Business, the Group has a sales and service network covering China's market and has service teams located in various cities of China. It has established in-depth cooperative relationships with over 2,000 units in China, which included Grade 3A general hospitals, stomatological hospitals, stomatological chain institutions and medical aesthetic institutions.

In terms of business performance, under the impact of Sino-US trade war and COVID-19, the European and American clients have adjusted their purchase volumes of dental prosthetics from China's market. According to the NADL (National Association of Dental Laboratories), many dental equipment companies in the US have shut down successively due to factors such as overseas competitions and industry consolidation. Hence, the export orders of the Group decreased when compared with last year. Continuous efforts will be put on marketing and research activities with an aim to achieve higher revenue in the future. The Group will continue to cooperate with technical institutes to secure a more stable supply of labour resources and to implement automation in order to reduce its reliance on labour resources.

### Health Care Business

In May 2019, the Group founded the Shenzhen Medical Health Technology Co., Ltd.* (深圳醫佳健康醫療科技有限公司) with medical teams consisting of national-level experts and professors in the areas of orthopaedics, rehabilitation and pain management. In the rehabilitation segment (an extension of the health care industry chain), it cooperates with rehabilitation institutions that possess mature technology, providing customers with safe and professional rehabilitation plans. The company has already established in-depth cooperative relationships with nearly twenty hospitals, including the Second People's Hospital of Shenzhen, Shenzhen People's Hospital and the Peking University Shenzhen Hospital. In October 2019, the company officially commenced the operation of medical institution "Shenzhen Medical Health General & Specialist Outpatient Clinic* (深圳醫佳普通專科門診部)". As of the date of issuance of this report, the outpatient clinic has served more than 10,000 patients, which develops an excellent reputation. In addition, our second sports rehabilitation clinic, Shenzhen Jiayi General Specialist Clinic* (深圳佳醫普通專科門診部), officially commenced businesses in January 2021.

** For identification purpose only*

# CHIEF EXECUTIVE OFFICER'S STATEMENT

## BUSINESS DEVELOPMENT STRATEGIES AND PROSPECTS

### Dental Prosthetics Business

It is expected that the Dental Prosthetics Business will have huge growth potential and will bring a long-term benefit to the Group. The Group has formulated a series of growth strategy for its Dental Prosthetics Business, which include expanding its sales network for China and overseas (such as the US) markets, increasing its domestic production capacity in China and developing new high-end dental prosthetics products with aesthetic attributes.

The Group's competitiveness is not only manifested in the advancement of innovative technologies, but also in its forward-looking market sensitivity as well as its analysis of and insights into potential clients. The Group's newly launched product, the clear aligner, has outstanding performance in contributing to revenue growth.

Apart from that, the Group's business strategy is to further diversify its dental device business so as to further enhance shareholder value. Among which, in view of the strong growth potential of the global dental device market, the Company is actively seeking for potential investment opportunities around the world to consolidate upstream and downstream businesses of dental devices, so as to enhance the Group's investment in the dental device business. The Group will actively set up a layout plan for dental device products in the future, and facilitate the transformation from low value-added business to high value-added business.

### Health Care Business

The Group set up a rehabilitation centre in Shenzhen with the intention to provide professional rehabilitation services for public health through stores and chain stores. It is expected that the project will have outstanding performance in contributing to the Group's revenue growth. The Group relies on the experience and networks of its management to seize different business and investment opportunities, including but not limited to partnerships and fund investments in the health care industry as well as the elderly care industry, in order to prepare for the Group's long-term business development.

In summary, as steady growth of China economy and the improvements of urban residents' living standard, plus the all-counted development medical and health care industry, huge growth potential of the oral medicine technology market is expected to be unleashed, which will bring opportunities to the Group for achieving long-term sustainable development. To maintain our market leadership and competitiveness, the Group has boosted its financial resources and will strengthen investment in research and development and innovation, to recruit outstanding professional technical talent and continue to introduce high value-added products and services to meet the escalating demand for dental care. The Group will continue to unearth synergies with its existing and potential business partners building on its experienced management team and strong sales network. At the same time, while striving for sustainable organic growth, the Group will actively capture high-tech dental related business and investment opportunities, explore cooperation and investment opportunities in the health care industry to the end of enhancing its scale and profitability. The Group will also enter the medical service sector through operating hospitals and chained rehabilitation centres, which lays a solid foundation for the Group's long-term business development.

# CHIEF EXECUTIVE OFFICER'S STATEMENT

## APPRECIATION

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

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

**Luo Jun**
*Chief Executive Officer*
Hong Kong, 24 March 2021

# MANAGEMENT DISCUSSION AND ANALYSIS

## FINANCIAL HIGHLIGHTS

During the year, the Group's revenue reached approximately HK$183.8 million (2019: approximately HK$251.6 million), representing a decrease of 27% when compared with last year. The loss attributable to the shareholders of the Company for the year ended 31 December 2020 was approximately HK$39.7 million, representing a basic loss per share of HK0.79 cents (2019: loss of approximately HK$354.7 million, representing a basic loss per share of HK7.03 cents).

## FINAL DIVIDEND

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

There is no arrangement under which a shareholder has waived or agreed to waive any dividend.

## BUSINESS REVIEW

### Dental Prosthetics Business

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

Revenue from the Dental Prosthetics Business was approximately HK$179.9 million as of 31 December 2020, and revenue was approximately HK$251.2 million for the corresponding period in 2019.

The Dental Prosthetics Business was acquired in May 2015. With regard to the sales distribution of the Dental Prosthetics Business, in 2020, domestic sales accounted for 82% of annual sales, overseas sales accounted for 18% of annual sales. Comparing to the domestic sales accounting for 65% of annual sales and overseas sales accounting for 35% of annual sales in 2019, the proportion of overseas sales in 2020 has significantly decreased, reflecting the impact in the Group's expansion of international market resulted from the COVID-19 pandemic. Also the overseas competitors actively engage in merger and acquisitions of dental prosthetics suppliers, which lead to a shrink of overseas sales.

On the other hand, since the quality of Condor Tech's three-dimensional intraoral scanners is not certain, the Company reached a settlement agreement with Condor Tech on 25 March 2021, pursuant to which the outstanding convertible bonds with Condor Tech was transferred to an independent third party at a price of EUR5,225,000. For further details, please refer to the announcement of the Company dated 25 March 2021.

Investment in research and know-hows is always a focus in the Group's business. Research and development expense of HK$20.4 million was incurred during the year 2020 (2019: HK$32.6 million), reflecting the management's determination and vision to invest in the future technologies in the Dental Prosthetics Business. On the other hand, grants and awards of HK$4.4 million (2019: HK$8.1 million) were received from the Municipal Government for acknowledging the Group's continued effort in research and development of skills and know-hows in the dental prosthetics areas.

# MANAGEMENT DISCUSSION AND ANALYSIS

## BUSINESS REVIEW – continued

### Health Care Business

The Group has participated in the health care industry – Shulan Project through the acquisition of Trade Guide Limited (a company engages in the provision of public health and medical services) in 2018, and a construction of hospital has commenced in 2019. Shulan Project will enable the Group to penetrate to the front line of the health care sector, directly responding and identifying the needs of patients, and it will also facilitate investment decision on the health care industry and building market reputation for the Group. The acquisition is expected to bring synergy effects to the existing business of the Group, and it is believed that the Group's Health Care Business can further expand its presence in the Yangtze River Delta region by sharing the resources and reputation of the hospital to be constructed by the Project.

In order to actively expand the Group's business scope in health care sector and to enhance shareholders' value, the Group has commenced its business operation in the sports rehabilitation industry, primarily focusing on sports injuries, post-operative rehabilitation and chronic pain, and has also introduced the German MTT sports rehabilitation technology. Its first sports rehabilitation clinic (Shenzhen Yijia General Specialist Clinic* (深圳醫佳普通專科門診部)) has officially commenced business and operation in October 2019. As of 31 December 2020, revenue from the outpatient business segment was approximately RMB3.44 million. The Group's second sports rehabilitation clinic (Shenzhen Jiayi General Specialist Clinic* (深圳佳醫普通專科門診部)) has officially commenced business and operation on 26 January 2021. The sports rehabilitation industry has been developing has rapidly in China and has huge potential compared with traditional rehabilitation. Shenzhen Yijia General Specialist Clinic introduced a team of orthopedic rehabilitation experts from Shenzhen Nanshan Hospital to actively prepare for academic exchanges in the sports rehabilitation industry, and have held 15 professional academic conferences regarding the sports rehabilitation industry throughout the year, which have enhanced the academic status of the outpatient department in the sports rehabilitation industry. Meanwhile, Shenzhen Yijia General Specialist Clinic has put more effort in the training of rehabilitation talents, established a talent training centre with Beijing Sport University and Hunan University of Chinese Medicine, and has joined the Chinese Athletes Association* (中國運動員協會) and became a member of the association. In 2020, Shenzhen Yijia General Specialist Clinic strictly controlled its medical risks and has received no medical complaints throughout the year, and there were no violation in medical insurance inspections throughout the year under its model operations. Shenzhen Yijia General Specialist Clinic has been actively expanding its rehabilitation projects. For example, in 2020, it has explored to the field of children's scoliosis, deformity correction insoles and postpartum rehabilitation. Among which, the children's scoliosis project has achieved remarkable results, which currently accounts for 13% of clinical service income.

The Group has been actively exploring new business model of healthy towns and has set out a comprehensive roadmap for its health care real estate business. In 2020, the general health care industry has outperformed the overall economy trends despite the effects brought by the COVID-19 pandemic, and the Group's health care business has also achieved significant development in the development of talents and projects.

Mr. Zhang Huagang (the Chairman of the Group), known as the "undisputed leader in the China's health care industry" among its peer, has officially joined the Group in April 2020. As the founder of China Tide Holdings Company Limited, Mr. Zhang Huagang has led the development of "Shanghai Tide Health Campus* (上海天地健康城)", which has became an innovative benchmark project in the elderly care industry. Since then, during his tenure at Shanghai Zendai Property Limited, Mr. Zhang Huagang pioneered the first "Property Trust Pension* (財產權信託養老)" model in China through the "Leyaji Elderly Community* (樂雅集養老社區)" project at Zhujiajiao town, Qingpu District, which has had a huge impact on the industry. The introduction of Mr. Zhang Huagang into the Group signified an important milestone for the Group's development in the health industry.

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# MANAGEMENT DISCUSSION AND ANALYSIS

## BUSINESS REVIEW – continued

### Health Care Business – continued

In April 2020, Mega Health Service Shenzhen Co., Ltd.* (美加健康服務(深圳)有限公司), a wholly-owned subsidiary of the Group, entered into the cooperation agreements with each of Zhuhai Shili Lianjiang Development and Medical Care Service Shanghai Inc. (a renowned Japanese health care corporate that based in Shanghai) to further expand its health care business. In 2020, whilst the Group's business development has been disrupted for months due to the impacts brought by the COVID-19 pandemic, the Group's health care business has managed to complete 215,000 square meters of new contracted areas.

## PROSPECT

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

### Dental Prosthetics Business

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

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

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

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# MANAGEMENT DISCUSSION AND ANALYSIS

## PROSPECT – continued

### Health Care Business

The health care services industry in the PRC has been growing rapidly in recent years. According to National Health Commission of the PRC, the total number of visits to clinics increased by 410 million in 2019 and the total spending on health care services in the PRC grew 106% during the period between 2013 and 2019 from RMB3,166 billion to RMB6,520 billion. Also, the revenue and numbers of hospitals have witnessed steady growth in the last decade. The number of admitted cases of private hospitals recorded a CAGR of 13.9% during the period between 2013 and 2019. The Hangzhou Shulan Project acquired by the Group is intended to be built as a Grade 3A Hospital with 2,000 beds and to cover organ transplantation, minimal invasive surgery, biological diagnosis and precision medical services. The acquisition will allow the Group to enhance its health care portfolio and will facilitate the Group's investment decision on the health care industry and building market reputation in the PRC. Through investing in the Shulan Project which focuses on developing the hospital, the Group will be able to penetrate to the front line of the health care sector, facing and identifying the needs of the patients directly, and enables the Group to discover and evaluate the potential business opportunity in the health care industry in Hangzhou City. The Group could enjoy the satisfactory synergistic benefits from the investment in the Project as contemplated under the Acquisition upon the successful development of the Project, which is favourable to the existing businesses of the Group and is in the interests of the Group and the Independent Shareholders as a whole.

Sports rehabilitation is booming in China, and the concept of sports rehabilitation was getting more well received by the public. With the gradual maturity of the market, the Group has launched its comprehensive business roadmap. The Group plans to deploy 3-5 sports rehabilitation clinics in Shenzhen in 2021, and introduce the rehabilitation medical team of Peking University Shenzhen Hospital to join its team. Leveraging its experience gained from the development of Shenzhen Yijia General Specialist Clinic, the Group has expanded its portfolio of sports rehabilitation projects and increased the use of peripheral rehabilitation products such as braces, orthopedic insoles, fascia guns, etc. to carry out sports rehabilitation education in various industries. The Group has also actively explore the business of offering insurance for competitions organised by enterprises and schools and conducted comprehensive promotion with the help of medical insurance units from large-scale sports events such as the Shenzhen Marathon.

It is expected that the health care business will have enormous growth potential due to the aging of the overall population in Mainland China has been accelerating, which will bring synergies to other businesses of the Group and thus the Group will benefit in long-term. The Group has formulated a series of development strategies for its health care business, including the promotion of "Tang Tang Town* (塘糖小鎮)" health care town project, one of the key projects in Shanghai for the year 2021. Meanwhile, the Group will build a light asset management and operation team and expand the cooperation with financial institutions.

The Group has commenced the construction of the Zhuhai Shili Lianjiang Project, which is expected to bring synergies to the Group's existing businesses, strengthen the Group's development in the health care industry, and generate sales revenue at the same time. In addition, the Group has established a health operation team in Shenzhen, hoping to provide professional services for the elderly through its professional health care operations and standardised service. After the signing of the strategic cooperation agreement between the Group and Medical Care Service Shanghai, the parties has furthered the negotiation of the joint venture agreement, aiming to cooperate with renowned corporates in the industry to establish a professional and comprehensive health care operation team and operation system that can cover the entire business landscape, as well as develop the Group's light asset management and operation business capabilities.

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# MANAGEMENT DISCUSSION AND ANALYSIS

## BUSINESS REVIEW – continued

### Health Care Business – continued

The Group and Shanghai Jingwan Zhaoye Real Estate Development Co., Ltd.* (上海景灣兆業房地產開發有限公司) (the domestic project company of Kaisa Group Holdings Ltd. ("Kaisa Group"), the controlling shareholder of the Company) plans to enter into a health care operation service agreement for some properties in the redevelopment projects in Xuhang Town, Jiading District, Shanghai, which creates synergy effect of the Group's light asset management operations that serve the main business of our controlling shareholder group. It is expected that this collaborative model will be replicated generally within the controlling shareholder group, thus bringing new business income to the Group and the controlling shareholder group while exporting the Group's light asset management capabilities.

In the future, the Group will promote the integration of health care business, finance and industry, as well as to promote the innovative development of health care business through supply chain finance, industrial funds and property trusts, in order to realise our blueprint of large-scale development of "health care + finance".

The Group is committed to leveraging the experience of its management and resource network to seize different business and investment opportunities, including but not limited to partnerships and fund investments in the health care industry to prepare for the long-term business development of the Group.

## OPERATING RESULTS AND FINANCIAL REVIEW

### Revenue

The sales for the year decreased significantly, which is mainly due to the slowdown of operation of the Dental Prosthetics Business of the Group. The COVID-19 pandemic and Sino-US trade war exerted pressure on the sales in both domestic and overseas market. Other revenue has been decreased, which is due to less subsidies were received from the government regarding research and development and the decrease in revenue from dentist training and consultancy services.

### Gross Profit and Gross Profit Margin

Gross profit for the year amounted to HK$90.0 million (2019: HK$122.9 million). Gross profit margin for the year increased to 48.9% (2019: 48.8%). This is mainly attributable to the increase in market share in the new product - Mega Clean Aligner which has a higher profit margin.

### Selling and Distribution Costs

Selling and distribution costs represented the management's effort to enhance the level of marketing activities.

### Administrative Expenses

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

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# MANAGEMENT DISCUSSION AND ANALYSIS

## OPERATING RESULTS AND FINANCIAL REVIEW – continued

### Other Expenses

Other expenses represented the research and development ("R&D") expenses. The Group spent its investments in research and development to enhance the competitiveness, production capacity, popularity of its products in the future while reducing labour costs. At the same time the Group would also apply for a deduction or exemption of PRC Enterprise Income Tax and grants and subsidies from the government in accordance with the requirements of the state. The related R&D projects include 3D engraving machines, 3D printers, 3D scanners and the development of an invisible orthodontic software. The scale of the applications for government subsidies for R&D projects and the utilisation of labour and raw materials were smaller and lower than that of 2019 because of decrease in revenue during the year.

### Convertible Bonds Receivable

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

### Convertible Promissory Note

The convertible promissory note represented the senior secured convertible promissory note with an independent third party, in the principal amount of US$3.5 million for the total consideration of US$3.5 million (equivalent to approximately HK$27.5 million).

### Cash Position and Cash Flow

The Group had a solid cash position for the year under review, with bank balances and cash amounting to approximately HK$176.6 million as at 31 December 2020 (31 December 2019: HK$230.2 million).

### Land Use Rights

During the year, the Group invested approximately HK$43.6 million on land use rights through incorporation of subsidiaries (2019: Nil).

### Capital Expenditure and Capital Commitments

During the year, the Group invested approximately HK$7.7 million (2019: approximately HK$15.0 million) mainly on the purchase of equipment. As at 31 December 2020, there was no capital expenditure commitments.

### Contingent Liabilities

The Group had no significant contingent liabilities as at 31 December 2020 (31 December 2019: Nil).

### Treasury Policy

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

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

# MANAGEMENT DISCUSSION AND ANALYSIS

## OPERATING RESULTS AND FINANCIAL REVIEW – continued

### Liquidity, Capital Structure and Financial Resources

Equity attributable to owners of the Company as at 31 December 2020 amounted to approximately HK$636.5 million (31 December 2019: approximately HK$642.0 million).

As at 31 December 2020, the net current assets of the Group amounted to approximately HK$239.6 million (31 December 2019: HK$344.7 million). The current and quick ratio was 3.58 and 3.51 respectively (31 December 2019: 6.08 and 5.98 respectively).

At 31 December 2020, the amount of HK$764,000 (2019: HK$716,000) represented balance due to Ms. Jiang Sisi, the spouse of Mr. Wu Tianyu (an executive Director). The amount is unsecured, interest-free and repayable on demand.

As at 31 December 2020 and 2019, no gearing ratio was calculated as there was no bank borrowing or other long term debt borrowed by the Group.

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

### Charge on Assets

There was no charge on assets of the Group as at 31 December 2020 and 2019.

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

***Significant investment on financial assets at fair value through profit or loss***

Mega Deluxe Holdings Limited, a wholly-owned subsidiary of the Company and Rui Jing Investment Company Limited (a wholly-owned subsidiary of Kaisa Group, the controlling shareholder of the Company), entered into the Sale and Purchase Agreement on 3 August 2018, pursuant to which the Company acquired the Shulan Project in Hangzhou City, Zhejiang Province, the PRC for the provision of public health and medical services. The investment cost was approximately HK$219.9 million.

As at 31 December 2020, the fair value of an unlisted equity investment of the project was approximately HK$269.2 million, representing approximately 35.5% of the total assets of the Group.

The investment was used to penetrate the healthcare sector through establishment of a Grade 3A Hospital in Hangzhou. The Hospital is still under construction stage as at the date of this report.

***Significant investment on land use rights***

On 9 April 2020, the Group entered into a cooperation agreement ("Zhuhai Shili Lianjiang Cooperation Agreement") with Zhuhai Shili Lianjiang Agricultural Tourism Development Co., Ltd.* (珠海十里蓮江農業旅遊開發有限公司) ("Zhuhai Shili Lianjiang Development") to invest in a subsidiary, Zhuhai Shili Lianjiang Health Care Development Co., Ltd.* (珠海十里蓮江健康產業發展有限公司) ("Zhuhai Shili Lianjiang Health Care"), which is held as to 55% indirectly by the Company and as to 45% by Zhuhai Shili Lianjiang Development, to develop and operate an international healthcare project located at Shili Lianjiang, Zhuhai, PRC, as an one-stop international healthcare project integrating healthcare, modern planting, rural visit, cultural creativity, science education and rural leisure as a whole (the "Zhuhai Shili Lianjiang Project"). The investment cost of land use rights was approximately HK$43.6 million.

As at 31 December 2020, the carrying amount of land use rights was approximately HK$46.6 million, representing approximately 6.1% of the total assets of the Group.

# MANAGEMENT DISCUSSION AND ANALYSIS

## OPERATING RESULTS AND FINANCIAL REVIEW – continued

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

***Significant investment on convertible bonds receivable***

On 19 October 2016, the Group's indirect wholly-owned subsidiary, United Noble Development Limited ("United Noble"), entered into a conditional agreement with Condor Technologies NV (formerly known as Condor International NV) ("Condor Tech"), a listed company incorporated in Belgium, to subscribe 257,663 unlisted 5% coupon convertible bonds issued by Condor Tech, at an aggregate principal amount of EUR5,000,000 maturing on the third anniversary of the date of issue. The subscription of the Convertible Bonds was subsequently completed on 29 November 2016. The maturity date of the convertible bonds was extended for one year on 29 November 2019. The investment cost was approximately HK$41.2 million.

As at 31 December 2020, the carrying amount of convertible bonds receivable was approximately HK$18.8 million, representing approximately 2.5% of the total assets of the Group. Impairment loss of approximately HK$30.8 million was recognised during the year ended 31 December 2020.

The investment was used to prepare for the development of intraoral scanner market in China. Condor Tech is the manufacturer of intraoral scanner. On 25 March 2021, the Company reached a settlement agreement with Condor Tech, pursuant to which the outstanding convertible bonds was transferred to an independent third party at a price of EUR5,225,000. Upon completion of the transfer, United Noble and Condor Tech are released from all its respective liabilities under the subscription agreement and it is expected that the Company will record a gain based on its carrying amount.

Saved as disclosed above, there were no significant investments held by the Company, nor were there any material acquisitions or disposals of subsidiaries, associates and joint ventures during the year 31 December 2020. There was no plan authorised by the Board for other material investments or additional capital assets as at the date of this report.

## EMPLOYEES AND REMUNERATION POLICY

The Group employed approximately 900 employees in total as at 31 December 2020 in Hong Kong and the PRC (31 December 2019: approximately 1,260 in Hong Kong and the PRC). The Group implemented its remuneration policy, bonus and share option schemes based on the performance of the Group and its employees. The Group provided benefits such as social insurance to ensure competitiveness.

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

The employees of the Company's PRC subsidiaries are members of state-managed retirement benefits scheme operated by the PRC government. The Company's PRC subsidiaries are required to contribute a certain percentage of their basic payroll to the retirement benefits scheme to fund the benefits.

In addition, the Group had also adopted a share option scheme as a long term incentive to the Directors and eligible employees. The emolument policy for the Directors and senior management of the Group is set up by the remuneration committee (the "Remuneration Committee") of the Board, having regard to the Group's performance, individual performance and comparable market conditions.

# DIRECTORS AND SENIOR MANAGEMENT PROFILE

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

## CHAIRMAN AND EXECUTIVE DIRECTOR

### Mr. Zhang Huagang

Mr. Zhang Huagang, aged 58, has been appointed as the Chairman, the chairman of the Nomination Committee and an executive Director since 9 April 2020. Before joining the Company, Mr. Zhang was one of the founders, a director and president of Gemdale Corporation Co., Ltd. (金地(集團)股份有限公司), a company listed on the Shanghai Stock Exchange (stock code: 600383) (the "Gemdale Group") during the period from May 1993 to July 2010, leading the Gemdale Group to grow from a small-scaled company in Futian District to a national-branded and listed real estate company in the People's Republic of China (the "PRC"). During his tenure as the president of the Gemdale Group, Mr. Zhang initiated many innovations ideas linking the real estate industry and finance industry in the PRC. Mr. Zhang founded the Gemdale/UBS China Real Estate Dollar Fund* (金地/UBS中國房地產美元基金), and led the Gemdale Group to enter into a numerous of equity investment cooperation with financial institutions, such as ING and Ping An Trust. During the period from August 2010 to April 2016, Mr. Zhang acted as the chief executive officer of China Tide Holdings Company Limited* (中國天地控股有限公司), led and developed an award-winning pension community project, which was recognised as one of the most innovative benchmarked project within the industry. Since May 2016, Mr. Zhang has been the chief executive officer of Beijing Zhongtianyixin Corporate Management Services Limited* (北京中天頤信企業管理服務有限公司) and the chairman of Beijing Kangyi Health Management Limited* (北京康頤健康管理有限公司). Further, since April 2017, Mr. Zhang has been acting as the chief executive officer and an executive director of Shanghai Zendai Property Limited* (上海證大地產有限公司), a company listed on the Stock Exchange (stock code: 755) and the chairman of Shanghai Xiyue Pension Services Co., Ltd.* (上海禧悦養老服務有限公司). Mr. Zhang graduated from Huazhong University of Science and Technology with a bachelor's degree in industrial automation in 1982 and obtained a master in business administration degree from the School of Management of State University of New York at Buffalo in 1989. Mr. Zhang is primarily responsible for our overall corporate strategies, planning and business development.

## EXECUTIVE DIRECTORS

### Mr. Luo Jun

Mr. Luo Jun, aged 40, has been appointed as an executive Director and the Chairman of the Board since 2 December 2016 and been appointed as the chairman of the Nomination Committee since 19 January 2018. With effect from 26 February 2019, Mr. Luo has ceased to act as the Chairman of the Board and the chairman and member of the Nomination Committee and been appointed as the chief executive officer (the "Chief Executive Officer") of the Company and the Co-Vice Chairman of the Board and remains as an executive Director of the Company. Mr. Luo is also a director of certain subsidiaries of the Company. Mr. Luo has been appointed as a director of 振興生化股份有限公司 (Zhenxing Biopharmaceutical and Chemical Co. Ltd.* ("Zhenxing Biopharmaceutical")), a PRC incorporated company listed on the Shenzhen Stock Exchange (Stock Code: 000403) since 2 May 2018 and had acted as the general manager of Zhenxing Biopharmaceutical from 2 May 2018 to 17 December 2018. Prior to this, Mr. Luo worked in Kaisa Holdings Limited, a subsidiary of Kaisa Group, 深圳世聯行地產顧問股份有限公司 (Shenzhen Worldunion Real Estate Co., Ltd.*) and 深圳市英聯國際不動產公司 (Shenzhen Inland International Real Estate Co., Ltd.*). Mr. Luo obtained his Bachelor Degree in Management from Nanjing University of Finance & Economics and Master Degree of Business Administration from Tongji University. Mr. Luo has extensive experience in operational planning and investment management in health care industry.

** For identification purposes only*

# DIRECTORS AND SENIOR MANAGEMENT PROFILE

## EXECUTIVE DIRECTORS – continued

### Mr. Wu Tianyu

Mr. Wu Tianyu, aged 56, has been appointed as an executive Director and the Chief Executive Officer of the Company since 21 May 2015 and acted as a member of the remuneration committee of the Board (the "Remuneration Committee") since 30 June 2015. With effect from 26 February 2019, Mr. Wu has resigned as the Chief Executive Officer of the Company and been appointed as the Co-Vice Chairman of the Board and remains as an executive Director and a member of the Remuneration Committee of Board. Mr. Wu is also a director of On Growth Global Development Limited and Royal Dental Laboratory Limited and the general manager of Shenzhen Jinyouran Technology Company Limited, all of which are the subsidiaries of the Company. Mr. Wu has been the key operators of the denture business of these companies for more than 20 years, overseeing the production of the denture products and the daily operations. Mr. Wu is the spouse of Ms. Jiang Sisi, the chief operating officer of the Company. Mr. Wu obtained a bachelor degree in Department of Stomatology of the Fourth Military Medical University. Mr. Wu has over 30 years of experience in denture profession.

### Mr. Kwok Ying Shing

Mr. Kwok Ying Shing, aged 56, has been appointed as an executive Director, the Chairman of the Board and the Chairman of the nomination committee of the Board (the "Nomination Committee") with effect from 26 February 2019. Mr. Kwok resigned as the chairman and the chairman of the nomination committee and a member of the remuneration committee and remained as an executive Director from 9 April 2020. Mr. Kwok is a substantial shareholder of Kaisa Group, a company listed on the Stock Exchange of Hong Kong Limited (the "Stock Exchange") (Stock Code: 1638), and a controlling shareholder of the Company. Mr. Kwok has extensive experience in real estate development, investment and financing management.

## INDEPENDENT NON-EXECUTIVE DIRECTORS

### Dr. Liu Yanwen

Dr. Liu Yanwen, aged 55, has been appointed as an independent non-executive Director and the chairman of the audit committee of the Board (the "Audit Committee") since 11 January 2017. Dr. Liu has been the independent non-executive director of 吉林化纖股份有限公司 (Jilin Hua Xian Co., Ltd.*), a PRC incorporated company listed on the Shenzhen Stock Exchange (Stock Code: 000420) during the period from 20 May 2016 to 12 May 2020. Dr. Liu obtained his Doctorate degree in Technical Economics and Management from Dalian University of Technology in 2009 and is currently the associate professor in the Faculty of Management and Economics of the Dalian University of Technology.

** For identification purposes only*

# DIRECTORS AND SENIOR MANAGEMENT PROFILE

## INDEPENDENT NON-EXECUTIVE DIRECTORS – continued

### Dr. Lyu Aiping

Dr. Lyu Aiping, aged 57, has been appointed as an independent non-executive Director since 5 March 2018. Dr. Lyu has been appointed as an independent non-executive director of Nam Tai Property Inc., a company listed on the New York Stock Exchange (NYSE Symbol: NTP) since 8 June 2019. Dr. Lyu is currently the Chair Professor and Dean of School of Chinese Medicine of Hong Kong Baptist University. Dr. Lyu is also a member of the Chinese Medicine Development Committee in Hong Kong, and a member of the Chinese Pharmacopoeia Commission. Dr. Lyu obtained his Bachelor Degree from Jiangxi University of Traditional Chinese Medicine his Master and Ph.D. degrees in China Academy of Traditional Chinese Medicine. Dr. Lyu is focusing on the translational research in Chinese medicine and the development of new drugs based on Chinese medicine and has extensive experience in strategic planning and research for Chinese medicine development and the standardisation of Chinese medicine.

### Ms. Li Yonglan

Ms. Li Yonglan, aged 41, has been appointed as an independent non-executive Director since 6 March 2021. Ms. Li is currently the deputy chief lawyer of the investment banking and legal affairs department of the Beijing Jingshi (Shenzhen) Law Firm since April 2020. From December 2008 to March 2020, Ms. Li worked as a lawyer in the Zhong Yin Law Firm in Beijing. From January 2006 to November 2008, Ms. Li served as the chief consultant of the online legal platform, China Civil and Commercial Law. From August 2003 to December 2005, Ms. Li was a legal assistant of Beijing Lixing Law Firm. Ms. Li obtained a bachelor's degree in Laws from The China Agricultural University in June 2003.

## SENIOR MANAGEMENT

### Ms. Jiang Sisi

Ms. Jiang Sisi, aged 40, is the Chief Operating Officer of the Company. Ms. Jiang has been a key management personnel and operator of On Growth Global Development Limited for more than 6 years and the director of certain subsidiaries of the Company. Ms. Jiang is the spouse of Mr. Wu Tianyu, an executive Director of the Company. Ms. Jiang obtained her Master Degree in Business Administration in the University of Wales. Ms. Jiang is responsible for the overall sales, marketing and administration and has demonstrated her strong marketing and management expertise by successfully building up various customer networks in the PRC and overseas.

### Mr. Yu Kwok Leung

Mr. Yu Kwok Leung, aged 45, has been appointed as the company secretary, an authorised representative and process agent of the Company ("Company Secretary") since 10 December 2018. Mr. Yu has also acted as the company secretary of Kaisa Group since 3 May 2018 and the company secretary of Kaisa Prosperity Holdings Limited (formerly known as Kaisa Property Holdings Limited), a company listed on the Stock Exchange (Stock Code: 2168) since 12 March 2019. Mr. Yu joined the Kaisa Group as the financial controller in April 2016 and is responsible for financial reporting, company secretarial duties and corporate finance activities of the Kaisa Group. Prior to that, Mr. Yu was the financial controller of a listed company in Hong Kong and as a senior audit manager in one of the international accounting firms. Mr. Yu obtained his bachelor degree of business administration in accountancy from the Hong Kong Polytechnic University. Mr. Yu is a member of the Hong Kong Institute of Certified Public Accountants. Mr. Yu has many years of experience in accounting and finance.

# DIRECTORS AND SENIOR MANAGEMENT PROFILE

## SENIOR MANAGEMENT – continued

### Mr. Lyu Chao

Mr. Lyu Chao, aged 36, has been appointed as the Group's vice president since 16 September 2019. Mr. Lyu is currently in charge of financing department and finance department. Mr. Lyu has worked as general manager of investment and financing department and medical service operation department. Before joining the Company, Mr. Lyu worked as assistant manager of the audit department of KPMG, financial controller and off-site financial officer of China Resources Pharmaceutical Commercial Group Limited, senior director of strategic investment department of China Resources Healthcare Group Limited, and joint position of general manager of both strategic investment department of China Resources Medical Holdings Company Limited and strategic operation department and investment development department of China Resources Healthcare Group Limited respectively. In June 2008, Mr. Lyu acquired a full-time undergraduate degree (major in accounting) from Guangdong University of Foreign Studies. In July 2014, Mr. Lyu obtained a part-time Master degree (major in accounting) from University of California. Mr. Lyu is currently member of the Institute of Public Accountants in Australia, associate member of the Institute of Financial Accountants, member of Forensic Certified Public Accountants Association, member of National Society of Tax Professionals, associate member of Association of International Accountants, Individual member of China Association of Chief Financial Officers, certified accountant of The Institute of China's Total Tax Accountants and Senior Accountant of PRC Qualification of Specialty and Technology.

** For identification purposes only*

# CORPORATE GOVERNANCE REPORT

The Board is pleased to present the Corporate Governance Report of the Group for the year ended 31 December 2020.

## CORPORATE GOVERNANCE PRACTICES

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

The Company has considered and applied the principles set out in the Corporate Governance Code (the "CG Code") contained in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"). In the opinion of the Board, the Company has complied with the code provisions set out in the CG Code during the year ended 31 December 2020, except for code provisions A.5.1 and A.6.7. The details of the foregoing deviations are provided below.

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

## A. BOARD OF DIRECTORS

### (1) Responsibilities

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

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

### (2) Board Composition

The Board comprises the following Directors during the year ended 31 December 2020 and up to the date of this report:

#### Executive Directors

Mr. Zhang Huagang *(Chairman)* (appointed on 9 April 2020)
Mr. Luo Jun *(Co-Vice Chairman and Chief Executive Officer)*
Mr. Wu Tianyu *(Co-Vice Chairman)*
Mr. Kwok Ying Shing (ceased to act as Chairman on 9 April 2020)
Mr. Xu Hao (resigned on 1 April 2020)

# CORPORATE GOVERNANCE REPORT

## A. BOARD OF DIRECTORS – continued

### (2) Board Composition – continued

#### Independent Non-executive Directors

Dr. Liu Yanwen
Dr. Lyu Aiping
Ms. Li Yonglan (appointed on 6 March 2021)
Mr. Lau Shui Fung (resigned on 1 April 2020)
Mr. Fok Hei Yu (resigned on 4 March 2021)

The list of Directors (by category) is also disclosed in all corporate communications issued by the Company from time to time. The biographical details of the Directors as well as the relationships among them, if any, are set out under the section headed "Directors and Senior Management Profile" on pages 14 to 17 of this report.

Save as otherwise disclosed, the Board members have no financial, business, family or other material relationships with each other.

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

The Board has at all times met the requirements of the Listing Rules relating to the appointment of independent non-executive Directors representing at least one-third of the Board, with at least one of whom possessing appropriate professional qualifications, or accounting or related financial management expertise. The Company has received written annual confirmation from all of its independent non-executive Directors in respect of their independence pursuant to the requirements of the Listing Rules (except that upon the resignation of Mr. Fok Hei Yu as an independent non-executive Director on 4 March 2021 and prior to the appointment of Ms. Li Yonglan on 6 March 2021, the Board comprises of six members with four executive Directors and two independent non-executive Directors. The number of independent non-executive Directors had then fallen below the minimum number of three as required and the number of members of the Audit Committee of the Board is reduced to two which is below the minimum number prescribed under Rule 3.21 of the Listing Rules). The Company considers that all of them are independent in accordance with the independence guidelines set out in the Listing Rules.

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

# CORPORATE GOVERNANCE REPORT

## A. BOARD OF DIRECTORS – continued

### (3) Chairman and Chief Executive Officer

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

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

### (4) Appointment and Re-Election of Directors

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

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

During the year, Mr. Wu Tianyu was re-elected as an executive Director and Mr. Fok Hei Yu and Dr. Lyu Aiping were re-elected as independent non-executive Directors at the annual general meeting on 22 June 2020.

During the year, Mr. Zhang Huagang was appointed as the Chairman and executive Director on 9 April 2020 and was re-elected as the Chairman and executive Director at the annual general meeting on 22 June 2020.

During the year, Mr. Kwok Ying Shing resigned as the Chairman and remained as an executive Director on 9 April 2020. Mr. Kwok will hold office until the next following annual general meeting of the Company and shall then be eligible for re-election at the meeting.

On 6 March 2021, Ms. Li Yonglan was appointed as an independent non-executive Director. Ms. Li will hold office until the next following annual general meeting of the Company and shall then be eligible for re-election at the meeting.

***Nomination Committee***

The Company has established the Nomination Committee with written terms of reference to consider for the appointment of new Director(s) of the Company and other related matters. During the year ended 31 December 2020, the Nomination Committee comprised one executive Director, Mr. Zhang Huagang (Chairman) and two independent non-executive Directors, namely Mr. Fok Hei Yu and Dr. Lyu Aiping. On 9 April 2020, Mr. Kwok Ying Shing ceased to act as the Chairman and chairman of the Nomination Committee and Mr. Zhang Huagang was appointed as the Chairman and the chairman of the Nomination Committee. On 4 March 2021, Mr. Fok Hei Yu resigned as the member of the Nomination Committee, and Dr. Liu Yanwen was appointed as the member of the Nomination Committee.

# CORPORATE GOVERNANCE REPORT

## A. BOARD OF DIRECTORS – continued

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

***Nomination Committee – continued***

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

The nomination committee have adopted a Board Diversity Policy which sets out the approach to achieve diversity on the Board. As a summary of the Board Diversity Policy, the nomination and appointment of Board member shall be considered from a number of factors, including but not limited to gender, age, cultural and educational background, professional experience and length of service. The Company will continue to achieve Board diversity with consideration of its own business model and specific need, and to monitor and develop new objectives for implementing and achieving improved diversity of the Board as and when it considers appropriate with regard to the specific needs of the Company and the market from time to time.

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

The Nomination Committee held one meeting during the year ended 31 December 2020 and the attendance record is set out under the section headed "Directors' Attendance Records" of this report. The Nomination Committee performed the following work during the year:

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

(b) determined the policy for the nomination of directors and the policy concerning diversity of Board members ; and

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

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

# CORPORATE GOVERNANCE REPORT

## A. BOARD OF DIRECTORS – continued

### (5) Induction and Continuing Development for Directors

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

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

### (6) Directors' Training

Pursuant to code provision A.6.5 of the CG Code, all Directors should participate in continuous professional development to develop and refresh their knowledge and skills. The Directors have been given relevant guideline materials to ensure that they are apprised of the latest changes in the commercial, legal and regulatory requirements in relation to the Company's businesses, and to refresh their knowledge and skills on the roles, functions and duties of a listed company director.

A summary of training received by the Directors for the year ended 31 December 2020 according to the records provided by the Directors is as follows:-

| Name of the Directors | Participated in Continuous Professional Development* |
|---|---|
| *Executive Directors* | |
| Mr. Zhang Huagang (appointed on 9 April 2020) | ✓ |
| Mr. Luo Jun | ✓ |
| Mr. Wu Tianyu | ✓ |
| Mr. Kwok Ying Shing | ✓ |
| Mr. Xu Hao (resigned on 1 April 2020) | ✓ |
| *Independent non-executive Directors* | |
| Dr. Liu Yanwen | ✓ |
| Mr. Fok Hei Yu | ✓ |
| Dr. Lyu Aiping | ✓ |
| Mr. Lau Shui Fung (resigned on 1 April 2020) | ✓ |

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

# CORPORATE GOVERNANCE REPORT

## A. BOARD OF DIRECTORS – continued

### (7) Board Meetings

***Board Practices and Conduct of Meetings***

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

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

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

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

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

***Directors' Attendance Records***

During the year ended 31 December 2020, 7 Board meetings were held for reviewing and approving the financial and operating performance, and considering and approving the overall strategies and policies of the Company.

# CORPORATE GOVERNANCE REPORT

## A. BOARD OF DIRECTORS – continued

### (7) Board Meetings – continued

The attendance records of each Director/Committee member at the meetings of the Board, the Nomination Committee, the Remuneration Committee and the Audit Committee during the year ended 31 December 2020 are set out below:

| | Number of meetings attended/ Number of meetings held during the Directors' tenure of office | | | |
|---|---|---|---|---|
| | **Board meetings** | **Remuneration Committee meetings** | **Nomination Committee meetings** | **Audit Committee meetings** |
| *Executive Directors:* | | | | |
| Mr. Zhang Huagang (note (a)) | 3/3 | N/A | N/A | N/A |
| Mr. Luo Jun | 7/7 | N/A | N/A | N/A |
| Mr. Wu Tianyu | 7/7 | 1/1 | N/A | N/A |
| Mr. Kwok Ying Shing | 5/7 | N/A | 1/1 | N/A |
| Mr. Xu Hao (note (b)) | 2/2 | N/A | N/A | N/A |
| *Independent Non-Executive Directors:* | | | | |
| Dr. Liu Yanwen | 7/7 | N/A | N/A | 2/2 |
| Mr. Fok Hei Yu | 7/7 | 1/1 | 1/1 | 2/2 |
| Dr. Lyu Aiping | 7/7 | 1/1 | 1/1 | 2/2 |
| Mr. Lau Shui Fung (note (b)) | 2/2 | N/A | N/A | N/A |

Notes:

(a) Mr. Zhang Huagang was appointed during the financial year on 9 April 2020.

(b) Mr. Xu Hao and Mr. Lau Shui Fung resigned during the financial year on 1 April 2020.

# CORPORATE GOVERNANCE REPORT

## A. BOARD OF DIRECTORS – continued

### (8) Model Code for Securities Transactions

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") set out in Appendix 10 to the Listing Rules as its code of conduct regarding Directors' dealings in the Company's securities. Specific enquiry has been made of all the Directors and the Directors have confirmed that they have complied with the Model Code throughout the year ended 31 December 2020.

The Company has also established written guidelines on no less exacting terms than the Model Code (the "Employees Written Guidelines") for securities transactions by employees who are likely to be in possession of inside information of the Company or its securities. No incidence of non-compliance of the Employees Written Guidelines by the employees was noted by the Company during the year ended 31 December 2020.

### COMPANY SECRETARY

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

The Company Secretary's biography is set out in the section headed "Directors and Senior Management Profile" of this report. In compliance with Rule 3.29 of the Listing Rules, the Company Secretary has undertaken no less than 15 hours of relevant professional training during the year ended 31 December 2020.

## B. DELEGATION BY THE BOARD

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

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

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

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

## C. REMUNERATION OF DIRECTORS AND SENIOR MANAGEMENT

The Company has established a formal and transparent procedure for formulating policies on remuneration of the directors and senior management of the Group. Details of the remuneration of each Director for the year ended 31 December 2020 are set out in note 8 to the consolidated financial statements.

### Remuneration Committee

The Company has established a Remuneration Committee with written terms of reference to consider for the remuneration for Directors and senior management of the Company and other related matters. During the year ended 31 December 2020, the Remuneration Committee comprised one executive Director, Mr. Wu Tianyu, as a member of the Remuneration Committee, and two independent non-executive Directors, namely Mr. Fok Hei Yu (chairman of the Remuneration Committee) and Dr. Lyu Aiping. On 4 March 2021, Mr. Fok Hei Yu resigned as the chairman of the Remuneration Committee, Dr. Lyu Aiping was appointed as the chairman of the Remuneration Committee, and Dr. Liu Yanwen was appointed as the member of the Remuneration Committee.

The primary functions of the Remuneration Committee include making recommendations to the Board on the remuneration policy and structure and determining the remuneration packages of Directors and senior management. It is also responsible for establishing transparent procedures for developing such remuneration policy and structure to ensure that no Director or any of his/her associates will participate in deciding his/her own remuneration, which remuneration will be determined by reference to the performance of the individual and the Company as well as market practice and conditions.

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

The Remuneration Committee held one meeting during the year ended 31 December 2020 and the attendance record is set out under the section headed “Directors’ Attendance Records” of this report. The Remuneration Committee performed the following work during the year:

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

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

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

# CORPORATE GOVERNANCE REPORT

## D. ACCOUNTABILITY AND AUDIT

### (1) Directors' Responsibilities for Financial Reporting

The Board is responsible for presenting a balanced, clear and understandable assessment of annual and interim reports, announcements on inside information and other disclosures required under the Listing Rules and other regulatory requirements. The Directors acknowledged their responsibility for preparing the financial statements of the Company for the year ended 31 December 2020.

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

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

### (2) Internal Controls

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

The Board has conducted an annual review of the effectiveness of the internal control system of the Group for the year ended 31 December 2020. The senior management reviews and evaluates the control process and monitors any risk factors on a regular basis and reports to the Board and the Audit Committee on any findings and measures to address the variances and identified risks.

### (3) Audit Committee

The Audit Committee was established with written terms of reference in accordance with Appendix 14 to the Listing Rules. During the year ended 31 December 2020, the Audit Committee comprised three independent non-executive Directors, namely Dr. Liu Yanwen, chairman of the Audit Committee, Mr. Fok Hei Yu and Dr. Lyu Aiping. On 4 March 2021, Mr. Fok Hei Yu resigned as the member of the Audit Committee. On 6 March 2021, Ms. Li Yonglan was appointed as a member of the Audit Committee.

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

# CORPORATE GOVERNANCE REPORT

## D. ACCOUNTABILITY AND AUDIT – continued

### (3) Audit Committee – continued

The Audit Committee held two meetings during the year ended 31 December 2020. The attendance records are set out under the section headed "Directors' Attendance Records" of this report. The Audit Committee performed the following work during the year:

(a) reviewed the Group's annual audited financial statements with the independent auditor for the year ended 31 December 2019, and reviewed the unaudited interim financial statements for the six months ended 30 June 2020, including the accounting principles and accounting standards adopted with recommendations made to the Board for approval;

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

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

(d) considered and made recommendations on the appointment of Grant Thornton Hong Kong Limited as the independent auditor of the Group during the year, and the terms of engagement.

### (4) Independent Auditor and Auditor's Remuneration

The report from independent auditor of the Group about their responsibilities on the consolidated financial statements is set out in the "Independent Auditor's Report" on pages 77 to 82.

The remuneration paid to the Company's independent auditor, Grant Thornton Hong Kong Limited, in respect of audit services and non-audit services for the year ended 31 December 2020 is set out below:

**Grant Thornton Hong Kong Limited**

| Services rendered | Remuneration paid/Payable |
|---|---|
| Audit services | HK$1,100,000 |
| Non-audit services | HK$1,113,000 |

# CORPORATE GOVERNANCE REPORT

## E. RISK MANAGEMENT AND INTERNAL CONTROL

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

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

The Company has developed and adopted risk management procedures and guidelines with defined authority for implementation by key business processes and office functions. The Board, together with the Audit Committee, should collect the information from the risk management system, include discussions of risk and oversight of the management of those risks into the agenda of Board meetings. The Directors, through the audit committee of the Company, reviewed the adequacy and effectiveness of the risk management and internal control systems of the Group, at least annually, for the year ended 31 December 2020.

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

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

# CORPORATE GOVERNANCE REPORT

## E. RISK MANAGEMENT AND INTERNAL CONTROL – continued

### Policies on dissemination of inside information

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

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

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

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

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

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

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

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

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

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

# CORPORATE GOVERNANCE REPORT

## E. RISK MANAGEMENT AND INTERNAL CONTROL – continued

### Policies on dissemination of inside information – continued

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

### Internal control and policies on handling inside information

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

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

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

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

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

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

# CORPORATE GOVERNANCE REPORT

## F. COMMUNICATIONS WITH SHAREHOLDERS AND INVESTORS

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

Shareholders' meetings provide an opportunity for communication between the Board and the shareholders. The Chairman of the Board as well as the Chairmen of the Nomination Committee, the Remuneration Committee and the Audit Committee or, in their absence, other members of the respective Committees normally attend shareholders' meetings of the Company to answer shareholders' questions. During the year ended 31 December 2020, the Company held the annual general meeting on 22 June 2020.

## G. SHAREHOLDERS' RIGHTS

### (1) Voting by Shareholders

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

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

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

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

# CORPORATE GOVERNANCE REPORT

## G. SHAREHOLDERS' RIGHTS – continued

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

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

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

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

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

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

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

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

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3. Participation of Stakeholders and Communication

4. Materiality Assessment

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   - A2: Use of Resources
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6. Social Aspects

   - B1: Employment
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# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

## 1. ABOUT THIS REPORT

### Objectives of the Report

This environmental, social and governance ("ESG") report (the "Report" or the "ESG Report") published by Kaisa Health Group Holdings Limited and its subsidiaries ("Kaisa Health", the "Group" or "We") aims to disclose the performance of the Group in respect of the environmental, social and governance aspects in a transparent and open manner over the past year, in response to the concerns and expectations of all stakeholders on the sustainable development of the Group. The Group will continue to improve the data collection and reporting system regarding the environmental management, social responsibility and governance performance, gradually expand the disclosure scope and enhance the quality and comprehensiveness of the Report in the long run.

### Reporting Scope

The directors of the Group are responsible for deciding the scope of work of the Report. The Report covers the period from 1 January 2020 to 31 December 2020 (the "Reporting Period" or the "Year"). The Report focuses on the Group's management approach, performance and measures in respect of the environmental, social and governance aspects, and the social KPIs cover the Group's overall business scope.

### Reporting Standards

The Report has been prepared in accordance with the requirements set out in the "Environmental, Social and Governance Reporting Guide" contained in Appendix 27 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "HKEx"). The disclosure in the Report complies with the disclosure requirements of "comply or explain" as set out in the "Environmental, Social and Governance Reporting Guide". The Report was reviewed, confirmed and approved by the Board on 24 March 2021. During the process of preparation of the Report, we summarised the Group's performance in corporate and social responsibilities based on the reporting principles of "Materiality", "Quantitative", "Balance" and "Consistency". Please refer to the table below for our understanding of and response to such reporting principles.

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

## 1. ABOUT THIS REPORT – continued

### Reporting Standards – continued

| Reporting Principles | Implications | Our Response |
|---|---|---|
| Materiality | The Report should contain issues that reflect material ESG impact or substantially affect stakeholders. | We engaged our stakeholders through various communication channels to better understand their concerns relating to sustainability issues that affect them. We also made materiality assessment to identify the material topics. |
| Quantitative | The Report should disclose key performance indicators in ways that can be measured, so that the effectiveness of ESG policies and management systems can be evaluated and validated. | We provided quantitative information and explained how data was collected and calculated in the ESG report. |
| Balance | The Report should provide an unbiased picture of our performance. The Report should avoid selections, omissions, or presentation formats that may inappropriately influence a decision or judgment by the Report reader. | We aim to keep the ESG report balanced and make fair disclosures on critical aspects. The Report discussed our achievements and challenges in the aspect of sustainable development. |
| Consistency | The Report should use consistent disclosure methodologies to allow for meaningful comparisons of ESG data over time. The issuer should disclose the changes in methodologies (if any) or any other relevant factors affecting meaningful comparison in the ESG Report. | We have reported in accordance with the "ESG Reporting Guide". Consistent methodologies were adopted in the Report. |

### Source of Information

The information disclosed in the Report is derived from the Group's formal documents, statistics or public information. The Board is responsible for the truthfulness, accuracy and completeness of its contents.

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

## 2. SUSTAINABLE DEVELOPMENT PHILOSOPHY AND GOVERNANCE

### Development Goals of Sustainable Governance

While promoting stable business growth, the Group considers environmental, social and governance responsibilities of corporates as one of the core values in its business operations. We will actively manage the impact of our operations on the environment and society, strive to perform our environmental and social responsibilities, enhance the Group's sustainability and transparency, as well as create a green sustainable future for our next generation.

### Sustainable Governance Strategies

In order to implement the Group's sustainable development philosophy, we have set up a top-down environmental, social and governance ("ESG") structure. The Board is responsible for formulating ESG strategies, evaluating and determining the Group's ESG risks, as well as ensuring the effectiveness of risk management and internal control. The staff of various departments within the Group is responsible for conducting ESG work and report assessment.

The Group is committed to fulfilling various aspects of corporate social responsibility, which included energy saving, reduction of greenhouse gas, provision of training and development opportunities for staff, environmental compliance and provision of a safe and healthy work environment for staff.

### Board Involvement

The Board strives to incorporate sustainable development into the Group's business development and has assumed full responsibility in the following areas:

- assessing and determining the Group's ESG-related risks and opportunities;
- ensuring that the Group has equipped with an appropriate and effective risk management and internal control system;
- formulating the Group's management policies, strategies, priorities and goals;
- reviewing ESG's work progress and performance on a regular basis; and
- approving the disclosure of information in the Group's ESG Report.

The Board regularly evaluates, identifies and manages sustainable development risks and strives to create long-term value for stakeholders by discovering potential opportunities through compliance with regulatory requirements and industry practices. In addition, the Board also regularly reviews the implementation of various ESG objectives and adjusts these objectives when appropriate and practicable, so as to ensure that the impact of corporate development on the environment and society will be minimised.

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

## 3. PARTICIPATION OF STAKEHOLDERS AND COMMUNICATION

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

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

| Stakeholder | Communication methods/channels | Expectations/ Concerns | Our actions |
|---|---|---|---|
| Shareholders and investors | • Annual general meetings<br>• Annual and interim reports<br>• Analyst meetings | • Return on investment<br>• Interest protection<br>• Information transparency | • Conduct annual general meeting<br>• Regular announcements published in websites of the HKEx and the Company |
| The Government | • Public consultations<br>• Online opinion surveys<br>• Seminars | • Abide to law<br>• Fulfil tax obligation | • Comply with law and regulations<br>• Pay tax on time in return contributing to society |
| Employees | • Meetings[1]<br>• Interviews[2] | • Humanity<br>• Health and safety<br>• Labour rights<br>• Career development | • Create a competitive working atmosphere<br>• Enhance employee safety management<br>• Improve performance appraisal, compensation and welfare system<br>• Staff activities and mailboxes<br>• Continuously improve the training and development system |
| Customers | • Interviews[3] | • Integrity<br>• Product quality and safety | • Maintain high product quality<br>• Listen to customer opinions and handle enquiries or complaints<br>• Customer satisfaction survey<br>• Communication visits |
| Suppliers | • Meeting | • Integrity<br>• Transparent procurement process<br>• Ethics and compliance | • Ensure contractual obligations are in place<br>• Supplier performance review and evaluation |
| The community | • Organise social welfare activities | • Energy saving<br>• Community culture and services | • Practice corporate social responsibilities<br>• Actively communicate with local government agencies |

1 During the reporting period, we conducted 4 meetings with around 881 employees.
2 During the reporting period, we conducted 40 interviews with 40 customers.
3 During the reporting period, we conducted 35 interviews with 35 employees.

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

## 4. MATERIALITY ASSESSMENT

Kaisa Health assessed and analysed the importance of environmental, social and governance issues based on its business and daily operations. Factors such as our business strategy objectives and policies, industry standards, legal and regulatory responsibilities, environmental protection, use of resources, service quality control, employee protection, etc. were taken into consideration in order to identify the ESG issues that are material and relevant to our business development and stakeholders.

The procedures for the materiality assessment are as follows:

### Step 1: Identify potential ESG issues

Taken into account the requirements of "ESG Reporting Guide" and the latest sustainability trends in the industry to identify relevant material issues. Twenty ESG issues were identified where they mattered most to our businesses and our stakeholders:

| ESG Aspects | | No. | ESG Issues |
|---|---|---|---|
| A. Environmental | Aspect A1: Emissions | 1 | Air pollution |
| | | 2 | Greenhouse gas emissions |
| | | 3 | Waste management |
| | Aspect A2: Use of Resources | 4 | Energy consumption |
| | | 5 | Water consumption |
| | | 6 | Paper consumption |
| | Aspect A3: The Environment and Natural Resources | 7 | Management of risks associated with the environment and natural resources |
| B. Social | Aspect B1: Employment | 8 | Equal opportunities |
| | | 9 | Employee's welfare |
| | Aspect B2: Health and Safety | 10 | Occupational health and safety |
| | Aspect B3: Development and Training | 11 | Employee development |
| | Aspect B4: Labour Standards | 12 | Prevention of child labour and forced labour |
| | Aspect B5: Supply Chain Management | 13 | Process of supplier selection and assessment |
| | | 14 | Monitoring and management of environmental and social risks in the supply chain |
| | Aspect B6: Product Responsibility | 15 | Service quality |
| | | 16 | Complaint handling |
| | | 17 | Protection of intellectual property rights |
| | | 18 | Customer data privacy and data security |
| | Aspect B7: Anti-corruption | 19 | Anti-corruption and anti-money laundering |
| | Aspect B8: Community Investment | 20 | Community engagement |

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

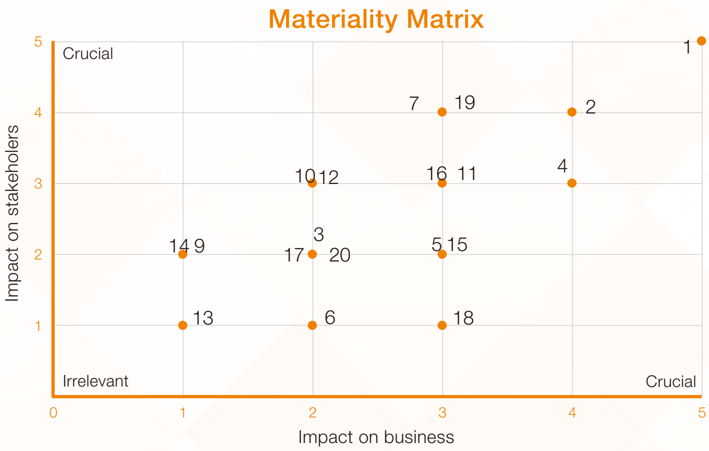
## 4. MATERIALITY ASSESSMENT – continued

### Step 2: Materiality assessment

To determine the materiality of the ESG issues, the view of our senior management as well as our key stakeholders were sought. The relevance/importance of each of the ESG issues were assessed and scored according to their views on a scale of 0 to 5 (0 is irrelevant and 5 is crucial).

### Step 3: Priority

Based on the materiality assessment result, we prioritised the issues in two dimensions, namely, "Importance to stakeholders" and "Importance to our operation" and prepared the materiality matrix as below. The ESG issues that fall within top right-hand quadrant are of greatest importance.




| No. | ESG Issues |
|---|---|
| 1 | Air pollution |
| 2 | Greenhouse gas emissions |
| 3 | Waste management |
| 4 | Energy consumption |
| 5 | Water consumption |
| 6 | Paper consumption |
| 7 | Management of risks associated with the environment and natural resources |
| 8 | Equal opportunities |
| 9 | Employee's welfare |
| 10 | Occupational health and safety |
| 11 | Employee development |
| 12 | Prevention of child labour and forced labour |
| 13 | Process of supplier selection and assessment |
| 14 | Monitoring and management of environmental and social risks in the supply chain |
| 15 | Service quality |
| 16 | Complaint handling |
| 17 | Protection of intellectual property rights |
| 18 | Customer data privacy and security |
| 19 | Anti-corruption and anti-money laundering |
| 20 | Community engagement |

According to the materiality matrix, Kaisa Health's key issues focus on areas such as air pollution, greenhouse gas emissions, energy consumption and community engagement. While giving consideration to our environmental and social responsibilities, we will pay more attention to the above areas. In order to effectively respond to stakeholders' concerns, we will focus on strengthening discussion on material issues, fully consider opinions of all stakeholders, and practically optimise our long-term development strategy.

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

## 5. ENVIRONMENTAL ASPECTS

As one of the users of natural resources, since environmental control has become part of the Group's long-term development strategies, Kaisa Health places great importance on the negative impacts that the Company may have caused on the natural environment during its operation. By implementing a series of management guidelines, we actively integrate environmental protection concepts into our core businesses, so as to effectively use natural resources and reduce pollution on the environment, and ultimately minimise our impact on the environment.

### A1: Emissions

***Greenhouse gas emission and other air pollutants***

The global issues like climate change become prominent and gradually affect many business operations. In response to the potential impact, we commit to minimising our greenhouse gases emission. The Group strictly comply with the Law of the People's Republic of China on Prevention and Control of Pollution from Environmental Noise (《中華人民共和國環境噪聲污染防治法》) which requires entities to strengthen pollution control and protect the environment. The law is likely to have significant impact on the Group due to the use of electricity, water and vehicles during our daily operation. In regard of this, we have established and strictly implemented the Guidelines on Vehicle Use Management (《車輛使用管理規定》) so as to provide clear guidelines for vehicle use of employees. Employees are encouraged to plan travelling routes reasonably, turn off idling engines after reaching the destinations and refrain from the use of air-conditioning when the vehicles are idle. We also conduct regular inspections and maintenance on the structure and equipment of the vehicles to promote energy saving and reduce pollution.

During the reporting period, the Group totally consumed 1,618.94 tonnes carbon dioxide equivalent emissions. The nitrogen oxides ("NOx"), sulphur oxides ("SOx"), inhalable particulate matter ("PM10"), fine inhalable particulate matter ("PM2.5"), carbon monoxide ("CO") and hydrocarbon ("HC") emitted by vehicles controlled by the Group accounted for 4.72 kg, 0.12 kg, 0.44 kg, 0.40 kg, 70.63 kg and 10.05 kg respectively.

***Waste***

The Group is committed to comply with the Law of the People's Republic of China on Prevention and Control of Environmental Pollution by Solid Wastes (《中華人民共和國固體廢物污染環境防治法》) and Regulations of Guangdong Province on the Prevention and Control of Environmental Pollution by Solid Waste (《廣東省固體廢物污染環境防治條例》) which prohibit unauthorised dumps, stacks and discards by any corporation or individual and to prevent and control environmental pollution incidents. These laws and regulations are likely to have significant impact on the Group due to the solid waste produced during our manufacturing process. In regard of this, we have established and strictly implemented the Guideline on Solid Waste Management (《固體廢物管理規範》) so as to provide clear guidelines to employees on the categorization and handling of hazardous recyclable waste, hazardous non-recyclable waste, non-hazardous recyclable waste and non-hazardous non-recyclable waste. In order to draw the employees' awareness towards waste reduction, we assigned designated personnel to supervise the implementation of waste reduction controls and conduct 6S management in the plant, namely Sort, Straighten, Sweep, Clean, Self-discipline and Safety. Due to the business nature, we will not directly generate a large amount of hazardous waste.

Non-hazardous recyclable waste and non-hazardous non-recyclable waste are generally living wastes, which would be collected by recycling companies and relevant government department. Employees are required to indicate hazardous waste clearly for identifications, if any. Measures are carried out by the Group to prevent sunlight, rainwater and to control dust from leakage. All hazardous waste, if any, should be handled by suppliers and qualified hazardous waste handling companies with segregated storage. During the reporting period, the Group produced 72.31 tonnes non-hazardous waste.

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

## 5. ENVIRONMENTAL ASPECTS – continued

### A1: Emissions – continued

***Greenhouse gas emission and other air pollutants – continued***

In accordance with the Law of the People's Republic of China on Prevention and Control of Water Pollution (《中華人民共和國水污染防治法》), the Group set up the Guideline on Wastewater Discharge Management (《廢水管理規範》) to strictly monitor the discharge of wastewater generated from the factory and office areas. Wastewater and rainwater discharges are separated for better wastewater management. Chemicals and other substances are prohibited to be placed near the exit of the rainwater pipes and wastewater pipes. Designated personnel are assigned to conduct regular inspections over the maintenance of the pipes to prevent water leakage.

### A2: Use of Resources

Increasing efficiency in the resource use is also an environmental protection issue which the Group has attached great importance to. In order to fulfil our corporate environmental obligations, we actively raise the energy efficiency in our daily operation. Meanwhile, we also review and assess the efficiency and effectiveness of our environmental protection plans at times, so as to save energy consumption and facilitate us to maintain a good balance between environmental protection and business growth.

We have established the Guideline on Conserving Energy and Reducing Consumption (《節能降耗作業指導書》) and proactively implemented the following energy saving and resource consumption measures. During the reporting period, the major resources consumed by the Group were electricity, raw materials, water and paper:

| Resources | Energy-saving and resource consumption measures |
|---|---|
| Electricity | Select energy-saving product when purchasing new electric appliances<br>Switch off unused electric appliances, lights and machinery<br>Turn on the air-conditioner only when temperature is above 28 degrees Celsius |
| Raw materials and ancillary materials for production | Establish policies and procedures to control the material procurement, inspection, storage, stock in and out process<br>Set material consumption quotas and continuously improve the utilisation rates to reduce material losses |
| Water | Reuse water in industrial aspects<br>Prevent water leakage by reinforcing the maintenance work of water facilities<br>Revamp production process by adoption of non-water consumption method |
| Paper | Introduce paperless office<br>Use both sides of the paper if necessary |

During the reporting period, the total energy and water volume consumed by the Group were 1,788.87 MWh, and 13,607 $m^3$ respectively. The total packaging material used by the Group decreased from 7.1 tonnes in 2019 to 5.64 tonnes this year.

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

## 5. ENVIRONMENTAL ASPECTS – continued

### A3: The Environment and Natural Resources

The Group's operations do not involve the use of large amount of non-renewable energy, forest resources, or impacts on biodiversity. Therefore, our operations have no significant impact on the environment and natural resources.

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

## 6. SOCIAL ASPECTS

In order to maintain competitiveness in the industry in the long run, it is essential for Kaisa Health to build a loyal and competent work environment for its employees. At the same time, upholding the giving-back concept, the Group commits to support our employees and shows compassion to society.

### B1: Employment

Employees create tremendous value to our business and are our most valuable assets. As an equal opportunity employer, we have established Fair Treatment Policy (《公平待遇政策》) to govern equal opportunity for employment to all individuals, regardless of our ethnic group, gender, religious affiliation, or other protected status or classification. We formulated the Anti-Discrimination Requirements (《反歧視規定》) to ensure employees are not subject to discrimination in areas such as recruitment, compensation, training, promotion and termination due to race, social class, nationality, age, religion, physical ability, disability, gender, sexual orientation or political affiliation. The Human Resource Management Procedures (《人力資源管理程序》) was in place to ensure the management of human resources have been standardised.

With the people-oriented culture, the Group encourages employees to speak up. According to the Internal Communication Management Requirements (《內部溝通管理規定》), we established upstream communications channels for employees to share their opinions and views. All opinions and complaints submitted by the employees will be reviewed and handled by the management in a transparent and fair manner within 7 working days. Through the communication channels, we can understand the employees' needs and improve our business performance.

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

## 6. SOCIAL ASPECTS – continued

### B1: Employment – continued

***Recruitment, compensation and other benefits in kind and welfare***

The Group signed the employment contracts with employees to ensure the employment practices comply with relevant employment laws and regulations, such as the Labour Law of the People's Republic of China (《中華人民共和國勞動法》), the Labour Contract Law of the People's Republic of China (《中華人民共和國勞動合同法》), and the Employment Ordinance. In terms of compensation and other benefits in kind and welfares, the terms and conditions of termination, dismissal, working hours, rest time and holidays, remuneration, social insurance and welfare benefits are stated clearly in the staff handbook and employment contract. The Group has strictly complied with the Compensation Ordinance to prohibit any kind of unfair or illegitimate dismissal. We also formulated stringent Employee Management Policies (《僱員管理政策》) to regulate the procedures of dismissal of employees. To create a harmonious atmosphere and encourage team spirit, the Group organised sports day and employee travelling that provide chances for the employees to get acquainted with each other.

***Promotion***

The Group motivates our employees with career development opportunities and competitive compensation. We formulated the Regulation of Promotion Management (《晉升管理規定》) to ensure that the promotion process is carried out in a fair and open manner for all employees.

During the reporting period, in terms of gender, the Group had 417 male employees and 476 female employees; in terms of geographical region, all employees are from Mainland China and Hong Kong; in terms of employment type, all employees are full-time employees; in terms of age, the Group had 654 employees aged 30 or below, 186 employees aged 31-40, 31 employees aged 41-50 and 22 employees aged above 51.

### B2: Health and Safety

Kaisa Health highly values occupational health and safety of employees with an aim to provide a safe and healthy workplace for our employees. We understand that some of our employees are exposed to safety risk due to their work nature such as working at height and using hazardous chemicals. Therefore, we have established the Employee Safety Manual (《員工安全手冊》) which stipulates the basic safety regulations and requires employees of different positions to follow specific safety rules to prevent any potential accidents from happening. To ensure compliance with relevant laws and regulations such as Production Safety Law of the People's Republic of China (《中華人民共和國安全生產法》) and Regulation on Work-Related Injury Insurances of Law of the People's Republic of China (《中華人民共和國工傷保險條例》). Our Policies on Production Safety Education and Training (《安全生產教育培訓制度》) and Work Injury Prevention Measures (《預防工傷的管理措施》) provide guidance to all departments for organising safety training activities. Safety trainings are conducted to all levels of employees regularly to promote strong safety awareness. Guideline on Work Injury (《工傷管理規定》) also set out the procedures of handling compensation claims and reporting work injury cases. During the reporting period, for the past three years (including this year), the death toll due to work each year was zero, and the number of working days lost due to work decreased from 81.5 days in 2019 to 0 days in 2020.

In addition to work safety enhancement, we also put significant efforts in raising employees' awareness towards emergency incidents. Under the guidance of our Policy on Prevention of Fire Accident (《防火檢查巡查制度》) and Fire Drill Plan (《消防滅火及逃生演習方案計劃》), a series of trainings and activities such as fire drills are conducted regularly to educate our employees in the event of a fire, as well as to ensure compliance with the Fire Control Law of the People's Republic of China (《中華人民共和國消防法》).

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

## 6. SOCIAL ASPECTS – continued

### B2: Health and Safety – continued

In order to look after the physical health of our employees, dust filtration system is installed in the factory and personal protective devices are provided for the employees. Decibel standards are also being set up and noise isolation devices are in place to protect the hearing health of our employees from the noises generated during production. Moreover, we have established the Policy on Medical Examination (《員工體檢制度》) according to the requirements of Law of the People's Republic of China on the Prevention and Control of Occupational Diseases (《中華人民共和國職業病防治法》). All employees are provided with pre-job medical examination to ensure that they are competent to their duties. Employees who work in hazardous operations are also provided with medical examinations on an annual basis.

### B3: Development and Training

Kaisa Health has always been concerned about the growth of employees, therefore, we are committed to devote sufficient resources in training and help maintaining the competitiveness of employees. To ensure all the employees have received training, our Policy of Human Resources Management (《人力資源管理程序》) stipulates that every department must prepare an annual staff training plan based on their operation needs. During the reporting period, the Group organised 67 training events according to the 2020 Annual Staff Training Plan, which covered areas such as pre-job training, compliance and law and regulation courses, management skills improvement, quality control management and technical skills training. During the reporting period, all employees have been provided with training. The total training hours completed by the employees were 9,019 hours. In average, the training hours completed by each employee was 10.1 hours. We will continuously encourage and organise various training events to meet the expectations and working needs of employees.

### B4: Labour Standards

The Group has strictly complied with the laws and regulations related to protecting the lawful rights of employees as well as strictly prohibiting the employment of persons under the age of 18, such as the Labour Law of the People's Republic of China (《中華人民共和國勞動法》), Labour Contract Law of the People's Republic of China (《中華人民共和國勞動合同法》) and Provisions on the Prohibition of Using Child Labour of Law of the People's Republic of China (《中華人民共和國禁止使用童工規定》). In compliance with these laws and regulations, we have formulated and implemented the Policy on Prohibition of Child Labour (《禁止僱用童工政策》), staff handbook (《員工手冊》) and Policy of Human Resource Management (《人力資源管理程序》). During the recruitment process, we require the relevant department to verify the job applicants' identity cards, health certificates and photos to prevent hiring persons aged under 16. In addition, when overtime work is required, the Group ensures that the employees do so on a voluntary basis and pays overtime wages in compliance with the laws and regulations. If there is any violations of the laws and regulations related to labour standards, we will penalise the responsible personnel based on the severity of each incident and also analyse the causes of such problems and then review, update and adjust such problems in the existing system or management methods.

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

## 6. SOCIAL ASPECTS – continued

### B5: Supply Chain Management

The stable development of the Group's business relies on the support of suppliers and business partners, as we attach high importance on supply chain management to maintain our service quality and business integrity. The Group has a rigor set of supplier selection criteria and procurement procedures to select suppliers that can uphold the highest quality in order to minimise product deficiencies and impacts on environment and society. Specifically, we require all suppliers to sign a Supplier's/Subcontractor's Letter of Undertaking on Social Responsibility Management (《供應商／分包商社會責任管理承諾書》) ("Letter of Undertaking") which set out our requirements on suppliers in respect of environmental protection and labour standards. Suppliers are also required to complete a Questionnaire on Environmental Factors of Related Party (《相關方環境因素調查表》) to identify the environmental impacts brought by their operations and their relevant actions. During the reporting period, the Group worked with 37 suppliers in total.

### B6: Product Responsibility

With an aim to provide customers with high quality and internationally recognised products, the Group has implemented a series of quality control measures to ensure all the products sold to customers are safe and up to standard.

***Advertising and products labelling***

The Group has established Policy of Advertising Management (《廣告管理規定》) to ensure advertisement documents are approved by the relevant government departments in accordance with the requirements of the Advertising Law of the People's Republic of China (《中華人民共和國廣告法》) before publishing. The Group's Label Management Regulations (《標籤管理規定》) states the requirements for the design, use, keeping, distribution and destruction of product labels. Research and Development ("R&D") department is responsible to designs all the labels of new products according to relevant requirements and submit to the Quality Control ("QC")department for inspection.

***Customers' satisfaction and feedback***

The Group's Customer Satisfaction and Feedback Management Procedures (《客戶滿意及回饋管理程式》) stipulates the procedures for the follow-up and handling of problems encountered by customers when using the products. Customer satisfaction surveys are also conducted annually to improve products and services quality. Guideline on Handling Client Complaints (《客戶投訴處理規定》) has been established in compliance with the Law of the People's Republic of China on the Protection of Consumer Rights and Interests (《中華人民共和國消費者權益保護法》), which ensure all customers' complaints are handled properly and timely.

***Product quality management***

According to the Product Quality Law of the People's Republic of China (《中華人民共和國產品品質法》), corporations in the PRC are responsible for their product quality and should protect the interests of consumers. Therefore, the QC department is set up to perform quality inspection at different stages within the production line, i.e. upon receipts of raw materials, during the production process, and before finished goods being dispatched. All these quality inspection control measures are clearly defined in the Quality Inspection Standards for Raw Materials (《原材料品質檢查標準》), Procedures for Production Process Management (《生產過程管理程序》), Procedures for Production and Inspection Process (《過程和產品的監視和測量控制程序》) and Standards for Finished Products (《成品檢驗標準》). The Procedures for Handling Defect Products (《不合格品管理程序》) specifies the process of handling defective products in the Group.

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

## 6. SOCIAL ASPECTS – continued

### B6: Product Responsibility – continued

***Product recall management***

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

***Confidentiality***

The Group's Regulations on Privacy Management of Customers' Information (《客戶資訊保密管理規定》) requires that all customers' information must be kept confidential. There are also specific guidelines on access rights setting, procedures of using, keeping and destroying different types of customer information in order to prevent leakage of customer data. In addition, each employee is required to sign a confidentiality agreement to safeguard company's confidential information. The department heads are responsible to review reports from employees and implement confidentiality measures.

### B7: Anti-Corruption

The Group is committed to conduct business with the highest level of business ethics and integrity, which requires all directors and employees to comply with Interim Provisions on Banning Commercial Bribery (《關於禁止商業賄賂行為的暫行規定》), Prevention of Bribery Ordinance, and Independent Commission Against Corruption Ordinance. Therefore, the Group has formulated Anti-Corruption Policy (《反貪污政策》) and Integrity Agreement (《廉潔協議》) that specifies the requirements for preventing, detecting and reporting fraud, such as deception, bribery, extortion, corruption, embezzlement, misappropriation, false representation, collusion, and money laundering. Employees of the Group are encouraged to report any acts of non-compliances with laws, disciplines or regulations, and give comments and suggestions with respect to the Group's operations and management through suggestion boxes and e-mails. The whistle-blower would be protected and rewarded.

### B8: Community Investment

As a corporate citizen, Kaisa Health recognises our responsibility is not only to make a direct contribution to the social economy, but also to build a healthy and vibrant community for the public through understanding the needs of the community where we operate.

***Education***

Nurturing the aspiration and positive development of younger generations is crucial for the future well-being and growth of our society. We worked closely with several professional collages for the past few years to organise a campaign "金悠然杯技能競賽頒獎典禮" that supports youth development in stomatology industry. The aim of the campaign was to help the students gain a better understanding of their strengths and encourage them to continue exploring their own talents and interests, but such event was suspended in 2020 due to the impact of the pandemic.

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

## 7. PERFORMANCE DATA SUMMARY[1]

### Environmental KPIs

| No. of KPI | KPIs | Unit | 2020 | 2019 |
|---|---|---|---|---|
| **A1.1** | Nitrogen oxides (NOx) | Kilograms | 4.72 | 2.83 |
| **Emissions**[2] | Sulfur oxides (SOx) | Kilograms | 0.12 | 0.19 |
| | Inhalable particulate matter ($PM_{10}$) | Kilograms | 0.44 | 0.27 |
| | Fine particulate matter ($PM_{2.5}$) | Kilograms | 0.40 | 0.26 |
| | Carbon monoxide (CO) | Kilograms | 70.63 | 51.28 |
| | Hydrocarbon (HC) | Kilograms | 10.05 | 6.39 |
| **A1.2** | **Scope 1: Direct emission of greenhouse gas** | | | |
| **Greenhouse gases**[3] | Mobile source - official vehicles | Carbon dioxide equivalent emission (in tonnes) | 22.71 | 34.56 |
| | Refrigeration/air conditioning equipment | Carbon dioxide equivalent emission (in tonnes) | 34.00 | 13.60 |
| | **Total direct carbon dioxide equivalent emission** | **Carbon dioxide equivalent emission (in tonnes)** | **56.71** | **48.16** |
| | **Intensity of total direct carbon dioxide equivalent emission**[4] | **Carbon dioxide equivalent emission (in tonnes)/square metre** | **Less than 0.01** | **Less than 0.01** |

1 Unless otherwise stated, the emission factors used in calculating the environmental key performance indicators in this report are calculated based on the "How to prepare an ESG Report – Appendix 2: Reporting Guidance on Environmental KPIs" issued by the Hong Kong Stock Exchange.

2 The calculation of the emission is based on the "Air pollutant emission inventory based on local emission source surveys in Hangzhou, China – Acta Scientiae Circumstantiae (基於本地污染源調查的杭州市大氣污染物排放清單研究–環境科學學報)" (2017 Edition) published by research institutions, the "Production and supply industry of electric power (Including industrial boilers) (熱力生產和供應行業(包括工業鍋爐))" (sulphur content S = 30mg/m³) published by the State Environmental Protection Administration, the conversion factors provided by scientific research institutions: http://w.astro.berkeley.edu/~wright/fuel_energy.html, the "Emission factors used in the estimations of emissions from combustion" published by Statistics Norway, the Project CLEAN AIR (清新空氣約章), the business guidance published by Hong Kong General Chamber of Commerce, the Manual for Air Pollutant Emission Factors (空氣污染物排放系數手冊) (AP-42, the 5th Edition) published by United States Environmental Protection Agency, the Technical Guidelines for the Compilation of Air Pollutant Emission Lists for Road Vehicles (Trial) (道路機動車大氣污染物排放列表編製技術指南(試行)) issued by the Ministry of Environmental Protection of the People's Republic of China and the Study of Air Quality in the Pearl River Delta Region published by the Environmental Protection Department of the Hong Kong Special Administrative Region.

3 The calculation of the carbon dioxide equivalent emissions from direct production, coal gas purchased and natural gas purchased is based on the conversion factors provided by scientific research institutions: http://w.astro.berkeley.edu/~wright/fuel_energy.html, and the References for Calculating Greenhouse Gas Emissions from Energy Consumption (能源消耗引起的溫室氣體排放計算工具) as set out in the internationally adopted Greenhouse Gas Protocol: Enterprise Accounting and Reporting Standards (溫室氣體核算體系:企業核算與報告標準).

4 Direct carbon dioxide equivalent emissions in total and intensity = direct carbon dioxide equivalent emissions (tonnes) ÷ total project area of 10465.26 square metres under management during the Year

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

## 7. PERFORMANCE DATA SUMMARY[1] – continued

### Environmental KPIs – continued

| No. of KPI | KPIs | Unit | 2020 | 2019 |
|---|---|---|---|---|
| | **Scope 2: Indirect emission of greenhouse gas** | | | |
| | Electricity purchased[5] | Carbon dioxide equivalent emission (in tonnes) | 1,482.89 | 2,114.04 |
| | **Total indirect carbon dioxide equivalent emission** | **Carbon dioxide equivalent emission (in tonnes)** | **1,482.89** | **2,114.04** |
| | **Intensity of total indirect carbon dioxide equivalent emission[6]** | **Carbon dioxide equivalent emission (in tonnes)/square metre** | **0.14** | **0.23** |
| | **Scope 3: Other indirect emission of greenhouse gas** | | | |
| | Waste paper discarded in a landfill | Carbon dioxide equivalent emission (in tonnes) | 2.56 | 2.74 |
| | Electricity consumed by governmental authorities for handling drinking water and sewage[7] | Carbon dioxide equivalent emission (in tonnes) | 9.62 | 17.10 |
| | Employees' business trips by airplane | Carbon dioxide equivalent emission (in tonnes) | 67.17 | 15.77 |
| | **Total other indirect carbon dioxide equivalent emissions** | **Carbon dioxide equivalent emission (in tonnes)** | **79.34** | **35.61** |
| | **Intensity of total other indirect carbon dioxide equivalent emissions[8]** | **Carbon dioxide equivalent emission (in tonnes)/square metre** | **less than 0.01** | **less than 0.01** |
| | **Total greenhouse gas emission** | | | |
| | **Total greenhouse gas emission** | **Carbon dioxide equivalent emission (in tonnes)** | **1,618.94** | **2,197.81** |
| | **Intensity of total greenhouse gas emission[9]** | **Carbon dioxide equivalent emission (in tonnes)/square metre** | **0.15** | **0.24** |

5 The data of emission factors for the power grids in Mainland China is based on the "China's Regional Power Grids Baseline Emission Factors for Emission Reduction Projects in 2016 (2016年度減排項目中國區域電網基準綫排放因子)" issued by the National Development and Reform Commission.

6 Indirect carbon dioxide equivalent emissions in total and intensity = indirect carbon dioxide equivalent emissions (tonnes) ÷ total project area of 10465.26 square metres under management during the Year

7 Electricity consumed per unit for handling drinking water and sewage in the PRC was set as 0.6 and 0.28328 kilowatt hours, and the default emission factor for electricity purchased in the PRC was set as 0.8 kilograms/kilowatt hour.

8 Other indirect carbon dioxide equivalent emissions in total and intensity = other indirect carbon dioxide equivalent emissions (tonnes) ÷ total project area of 10465.26 square metres under management during the Year

9 Greenhouse gas emissions in total and intensity = greenhouse gas emissions in total (tonnes) ÷ total project area of 10465.26 square metres under management during the Year

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

## 7. PERFORMANCE DATA SUMMARY[1] – continued

### Environmental KPIs – continued

| No. of KPI | KPIs | Unit | 2020 | 2019 |
|---|---|---|---|---|
| **A1.3** | **Total hazardous waste** | **Tonnes** | **N/A** | **N/A** |
| **Hazardous waste** | **Intensity of total hazardous waste[10]** | **Tonnes/square metre** | **N/A** | **N/A** |
| **A1.4** | **Types of non-hazardous waste** | | | |
| **Non-hazardous waste** | Plastic | Tonnes | 0.1 | – |
| | Plastic bottles | Tonnes | 0.1 | – |
| | Toner Cartridge/Ink Cartridge | Tonnes | 0.01 | – |
| | Computers and equipment | Tonnes | 0.1 | – |
| | Concrete | Tonnes | 3 | 10 |
| | Gypsum residue | Tonnes | 68 | 75 |
| | Domestic wastes | Tonnes | 1 | 1 |
| | **Total non-hazardous waste** | **Tonnes** | **72.31** | **86** |
| | **Intensity of total non-hazardous waste[11]** | **Tonnes/square metre** | **less than 0.01** | **less than 0.01** |
| | **Types of recycled waste** | | | |
| | Paper | Tonnes | 0.2 | – |
| | **Total recycled waste** | **Tonnes** | **0.2** | **–** |
| | **Intensity of recycled waste** | **Tonnes/square metre** | **less than 0.01** | **–** |

10 Hazardous waste in total and density = hazardous waste in total (tonnes) ÷ total project area of 10465.26 square metres under management during the Year

11 Non-hazardous waste in total and density = non-hazardous waste in total (tonnes) ÷ total project area of 10465.26 square metres under management during the Year

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

## 7. PERFORMANCE DATA SUMMARY[1] – continued

### Environmental KPIs – continued

| No. of KPI | KPIs | Unit | 2020 | 2019 |
|---|---|---|---|---|
| **A2.1** | **Direct energy consumption** | | | |
| **Energy**[12] | Gasoline | MWh | 79.68 | 121.26 |
| | **Direct energy consumption** | **MWh** | **79.68** | **121.26** |
| | **Intensity of direct energy consumption**[13] | **MWh/square metre** | **less than 0.01** | **less than 0.01** |
| | Indirect energy consumption | | | |
| | Electricity purchased | MWh | 1,709.18 | 2,436.66 |
| | Indirect energy consumption | MWh | 1,709.18 | 2,436.66 |
| | **Intensity of indirect energy consumption**[14] | **MWh/square metre** | **0.16** | **0.26** |
| | **Total energy consumption** | | | |
| | **Total energy consumption** | **MWh** | **1,788.87** | **2,557.92** |
| | **Intensity of total energy consumption**[15] | **MWh/square metre** | **0.17** | **0.28** |
| **A2.2** | **Total water consumption** | **Cubic metre** | **13,607** | **24,197** |
| **Water consumption** | **Intensity of total water consumption**[15] | **Cubic metre/square metre** | **1.30** | **2.62** |
| **A2.5** | Plastic bags | Tonnes | 3.50 | 6.9 |
| **Packaging materials** | Desiccative | Tonnes | 0.14 | 0.2 |
| **for finished products** | Cardboard boxes | Tonnes | 2.00 | – |
| | **Total packaging material for finished products** | **Tonnes** | **5.64** | **7.1** |
| | **Intensity of total packaging material for finished products**[16] | **Tonnes/square metre** | **less than 0.01** | **less than 0.01** |

12 Energy consumption is calculated based on the conversion factors set out at the General Rules for Calculation of Comprehensive Energy Consumption (綜合能耗計算通則) (GB/T 2589-2008), the national standard of the People's Republic of China, and the conversion factors provided by scientific research institutions: http://w.astro.berkeley.edu/~wright/fuel_energy.html.

13 Direct energy consumption in density = direct energy consumption (tonnes) ÷ total project area of 10465.26 square metres under management during the Year

14 Indirect energy consumption in density = indirect energy consumption (tonnes) ÷ total project area of 10465.26 square metres under management during the Year

15 Energy consumption in total and density = energy consumption in total (tonnes) ÷ total project area of 10465.26 square metres under management during the Year

16 Packaging materials for finished products in total and density = packaging materials for finished products in total (tonnes) ÷ total project area of 10465.26 square metres under management during the Year

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

## 7. PERFORMANCE DATA SUMMARY[1] – continued

### Social KPIs

| No. of KPI | KPIs | Unit | 2020 | 2019 |
|---|---|---|---|---|
| **B1.1** | **By employment type** | | | |
| **Total workforce** | Full time | Number of employees | 893 | 1,263 |
| | Part time | Number of employees | 0 | 0 |
| | **By geographical region** | | | |
| | Shenzhen | Number of employees | 867 | 1,247 |
| | Hangzhou | Number of employees | 3 | 6 |
| | Hong Kong | Number of employees | 10 | 10 |
| | Zhuhai | Number of employees | 13 | – |
| | **By gender** | | | |
| | Male | Number of employees | 417 | 592 |
| | Female | Number of employees | 476 | 671 |
| | **By age** | | | |
| | 30 or below | Number of employees | 654 | 1035 |
| | 31-40 | Number of employees | 186 | 188 |
| | 41-50 | Number of employees | 31 | 27 |
| | 51 or above | Number of employees | 22 | 13 |
| | **By employee category** | | | |
| | Senior management | Number of employees | 17 | 20 |
| | Middle management | Number of employees | 36 | 79 |
| | General staff | Number of employees | 840 | 1164 |
| **B1.2** | **By employment type** | | | |
| **Employee turnover** | Full time | % | 102.24 | 31.20 |
| | Part time | % | 0 | 0 |
| | **By geographical region** | | | |
| | Shenzhen | % | 104.84 | 31.03 |
| | Hangzhou | % | 33.33 | 0 |
| | Hong Kong | % | 20.00 | 30 |
| | Zhuhai | % | 7.69 | 0 |
| | Huizhou | % | 0 | 100 |
| | **By gender** | | | |
| | Male | % | 111.75 | 34.80 |
| | Female | % | 93.91 | 28.02 |
| | **By age** | | | |
| | 30 or below | % | 108.87 | 31.88 |
| | 31-40 | % | 97.85 | 30.85 |
| | 41-50 | % | 51.61 | 18.52 |
| | 51 or above | % | 13.64 | 7.69 |

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

## 7. PERFORMANCE DATA SUMMARY[1] – continued

### Social KPIs – continued

| No. of KPI | KPIs | Unit | 2020 | 2019 |
|---|---|---|---|---|
| | **By employee category** | | | |
| | Senior management | % | 17.65 | 0 |
| | Middle management | % | 13.89 | 0 |
| | General staff | % | 107.74 | 33.85 |
| **B2.1 Number and rate of work-related fatalities[17]** | Number of work-related fatalities | Person | 0 | 0 |
| | Rate of work-related fatalities | % | 0 | 0 |
| **B2.2 Lost days due to work injury** | Lost days due to work injury | Days | 0 | 81.5 |
| **B3.1 Percentage of employees trained[18]** | Percentage of employees trained | % | 97.54 | 96.00 |
| | **By gender** | | | |
| | Male | % | 49.25 | 46.20 |
| | Female | % | 50.75 | 53.80 |
| | **By employee category** | | | |
| | Senior management | % | 1.03 | 0.25 |
| | Middle management | % | 15.15 | 5.79 |
| | General staff | % | 83.81 | 93.97 |
| **B3.2 Average training hours completed per employee[19]** | Average training hours completed per employee | Hours | 10.10 | 9.44 |
| | **By gender** | | | |
| | Male | Hours | 9.82 | 8.81 |
| | Female | Hours | 10.37 | 9.98 |
| | **By employee category** | | | |
| | Senior management | Hours | 20.64 | 26.00 |
| | Middle management | Hours | 20.00 | 77.50 |
| | General staff | Hours | 8.18 | 5.20 |

17 The number and rate of work-related fatalities are zero in 2018.

18 The calculation basis adopted for the percentage of employees trained in 2020 is different from those in 2019. The calculation for 2019 is based on the attendance per employee while the calculation for 2020 is based on the total employees trained. The percentage of employees trained in 2019 shown in the table has been re-calculated with new basis.

19 The calculation basis adopted for the average training hours completed per employee in 2020 is different from those in 2019. The calculation for 2019 is based on the attendance per employee while the calculation for 2020 is based on the total employees trained. The percentage of employees trained in 2019 shown in the table has been re-calculated with new basis.

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

## 7. PERFORMANCE DATA SUMMARY[1] – continued

### Social KPIs – continued

| No. of KPI | KPIs | Unit | 2020 | 2019 |
|---|---|---|---|---|
| **B5.1** | **Number of Suppliers (By geographical region)** | | | |
| **Number of suppliers** | Southeast China region | Number of Suppliers | 1 | 1 |
| | Northern China region | Number of Suppliers | 4 | 4 |
| | Central China region | Number of Suppliers | 4 | 4 |
| | Eastern China region | Number of Suppliers | 9 | 9 |
| | Southern China region | Number of Suppliers | 16 | 16 |
| | Southwest China region | Number of Suppliers | 2 | 2 |
| | North America region | Number of Suppliers | 1 | 1 |
| **B6.1** **Percentage of total and health reasons products sold or shipped subject to recalls for safety and health reasons** | Percentage subject to recalls for safety | % | 0 | 0 |
| **B6.2** **Number of product related complaints** | Number of product and service related complaints received | Case | 0 | 0 |
| **B7.1** **Legal cases in relation to corruption** | Number of legal cases in relation to corruption filed and concluded | Case | 0 | 0 |
| | Anti-corluption training programs provided to the Directors and employees | Hours | 0 | 0 |
| **B8.1 & B8.2** **Community investment** | **Total amount of donation (by contribution on focus areas)** | | | |
| | Education | RMB | 0 | 20,000 |
| | Labour needs | RMB | 0 | 20,000 |
| | **Total number of hours of volunteer services (by contribution on focus areas)** | | | |
| | Education | Hours | 0 | 8 |
| | Labour needs | Hours | 0 | 8 |

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

## 8. HKEx ESG REPORTING GUIDE CONTENT INDEX

| Subject Areas, Aspects, General Disclosures and Overview of Key Performance Indicators (KPIs) | | Disclosure Status | Section/Explanation |
|---|---|---|---|
| **A. Environment** | | | |
| **Aspect A1: Emissions** | | | |
| General Disclosure<br>Information on:<br>(a) the policies; and<br>(b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to exhaust and greenhouse gas emissions, discharges into water and soil, generation of hazardous and non-hazardous wastes, etc. | | Disclosed | V: Environmental Aspect |
| KPI A1.1 | Types of emissions and respective emission data. | Disclosed | V: Environmental Aspect,<br>VII: Performance Data Summary |
| KPI A1.2 | Greenhouse gas emissions in total (in tonnes) and, if appropriate, intensity (e.g. per unit of production volume, per facility). | Disclosed | V: Environmental Aspect,<br>VII: Performance Data Summary |
| KPI A1.3 | Hazardous wastes generated in total (in tonnes) and, if appropriate, intensity (e.g. per unit of production volume, per facility). | Not applicable | Our daily operations do not directly generate a significant amount of hazardous waste. |
| KPI A1.4 | Non-hazardous wastes generated in total (in tonnes) and, if appropriate, intensity (e.g. per unit of production volume, per facility). | Disclosed | V: Environmental Aspect,<br>VII: Performance Data Summary |
| KPI A1.5 | Description of measures taken to reduce emissions and results achieved. | Disclosed | V: Environmental Aspect |
| KPI A1.6 | Description of treatment of hazardous and non-hazardous wastes, reduction initiatives and results achieved. | Disclosed | V: Environmental Aspect |
| **Aspect A2: Use of Resources** | | | |
| General Disclosure<br>Policies on efficient use of resources, including energy, water and other raw materials.<br>Notes: The resources can be used for production, storage, transportation, buildings, electronic devices etc. | | Disclosed | V: Environmental Aspect |
| KPI A2.1 | Direct and/or indirect energy consumption by type (e.g. electricity, gas or oil) in total (kWh in '000s) and intensity (e.g. per unit of production volume, per facility). | Disclosed | V: Environmental Aspect,<br>VII: Performance Data Summary |
| KPI A2.2 | Water consumption in total and intensity (e.g. per unit of production volume, per facility). | Disclosed | V: Environmental Aspect,<br>VII: Performance Data Summary |
| KPI A2.3 | Description of energy use efficiency initiatives and results achieved. | Disclosed | V: Environmental Aspect |
| KPI A2.4 | Description of whether there is any issue in sourcing water that is fit for purpose, water efficiency initiatives and results achieved. | Disclosed | V: Environmental Aspect |
| KPI A2.5 | Total packaging material used for finished products (in tonnes) and, if applicable, with reference to per unit produced. | Disclosed | V: Environmental Aspect,<br>VII: Performance Data Summary |
| **Aspect A3: Environmental and Natural Resources** | | | |
| General disclosure<br>Policies on minimising the issuer's significant impact on environmental and natural resources | | Disclosed | V: Environmental Aspect |
| KPI A3.1 | Description of the significant impacts of activities on environmental and natural resources and the actions taken to manage them. | Disclosed | V: Environmental Aspect |

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

## 8. HKEx ESG REPORTING GUIDE CONTENT INDEX – continued

| Subject Areas, Aspects, General Disclosures and Overview of Key Performance Indicators (KPIs) | | Disclosure Status | Section/Explanation |
|---|---|---|---|
| **B. The Society** | | | |
| **Employment and Labour Practices** | | | |
| **Aspect B1: Employment** | | | |
| General Disclosure<br>Information on:<br>(a) the policies; and<br>(b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to compensation and dismissal, recruitment and promotion, working hours, rest periods, equal opportunity, diversity, anti-discrimination, and other benefits and welfare. | | Disclosed | VI: Social Aspect |
| KPI B1.1 | Total workforce by gender, employment type, age group and geographical region. | Disclosed | VI: Social Aspect,<br>VII: Performance Data Summary |
| KPI B1.2 | Employee turnover rate by gender, age group and geographical region. | Disclosed | VII: Performance Data Summary |
| **Aspect B2: Health and Safety** | | | |
| General Disclosure<br>Information on:<br>(a) the policies; and<br>(b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to providing a safe working environment and protecting employees from occupational hazards. | | Disclosed | VI: Social Aspect |
| KPI B2.1 | Number and rate of work-related fatalities. | Disclosed | VI: Social Aspect,<br>VII: Overview of KPIs |
| KPI B2.2 | Lost days due to work injury. | Disclosed | VI: Social Aspect,<br>VII: Performance Data Summary |
| KPI B2.3 | Description of occupational health and safety measures adopted, how they are implemented and monitored. | Disclosed | VI: Social Aspect |
| **Aspect B3: Development and Training** | | | |
| General Disclosure<br>Policies on improving employees' knowledge and skills for discharging duties at work<br>Description of training activities. | | Disclosed | VI: Social Aspect |
| KPI B3.1 | The percentage of employees trained by gender and employee category (e.g. senior management, middle management). | Disclosed | VII: Performance Data Summary |
| KPI B3.2 | The average training hours completed per employee by gender and employee category. | Disclosed | VI: Social Aspect,<br>VII: Performance Data Summary |

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

## 8. HKEx ESG REPORTING GUIDE CONTENT INDEX – continued

| Subject Areas, Aspects, General Disclosures and Overview of Key Performance Indicators (KPIs) | | Disclosure Status | Section/Explanation |
|---|---|---|---|
| **Aspect B4: Labour Standards** | | | |
| General Disclosure<br>Information on:<br>(a) the policies; and<br>(b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to preventing use of child labour or forced labour. | | Disclosed | VI: Social Aspect |
| KPI B4.1 | Description of measures to review employment practices to avoid child and forced labour. | Disclosed | VI: Social Aspect |
| KPI B4.2 | Description of steps taken to eliminate such practices when discovered. | Disclosed | VI: Social Aspect |
| **Operating Practices** | | | |
| **Aspect B5: Supply Chain Management** | | | |
| General Disclosure<br>Policies on managing the environmental and social risks of the supply chain. | | Disclosed | VI: Social Aspect |
| KPI B5.1 | Number of suppliers by geographical region. | Disclosed | VI: Social Aspect,<br>VII: Performance Data Summary |
| KPI B5.2 | Description of practices relating to engaging suppliers, number of suppliers where the practices are being implemented, how they are implemented and monitored. | Disclosed | VI: Social Aspect |
| **Aspect B6: Product Responsibility** | | | |
| General Disclosure<br>Information on:<br>(a) the policies; and<br>(b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to health and safety, advertising, labeling and privacy matters in relation to products and services provided and methods of redress. | | Disclosed | VI: Social Aspect |
| KPI B6.1 | Percentage of total products sold or shipped subject to recalls for safety and health reasons. | Disclosed | VI: Social Aspect,<br>VII: Performance Data Summary |
| KPI B6.2 | Number of products and service related complaints received and how they are dealt with. | Disclosed | VI: Social Aspect,<br>VII: Performance Data Summary |
| KPI B6.3 | Description of practices relating to observing and protecting intellectual property rights. | Not applicable | This KPI does not apply our business |
| KPI B6.4 | Description of quality assurance process and recall procedures. | Disclosed | VI: Social Aspect |
| KPI B6.5 | Description of consumer data protection and privacy policies, how they are implemented and monitored. | Disclosed | VI: Social Aspect |

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

## 8. HKEx ESG REPORTING GUIDE CONTENT INDEX – continued

| Subject Areas, Aspects, General Disclosures and Overview of Key Performance Indicators (KPIs) | | Disclosure Status | Section/Explanation |
|---|---|---|---|
| **Aspect B7: Anti-corruption** | | | |
| General Disclosure<br>Information on:<br>(a) the policies; and<br>(b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to bribery, extortion, fraud and money laundering. | | Disclosed | VI: Social Aspect |
| KPI B7.1 | Number of concluded legal cases regarding corrupt practices brought against the issuer or its employees during the reporting period and the outcomes of the cases. | Disclosed | VII: Performance Data Summary |
| KPI B7.2 | Description of preventive measures and whistle-blowing procedures, how they are implemented and monitored. | Disclosed | VI: Social Aspect |
| **The Society** | | | |
| **Aspect B8: Community Investment** | | | |
| General Disclosure<br>Policies on community engagement to understand the needs of the communities where the issuer operates and to ensure its activities take into consideration the communities' interests. | | Disclosed | VI: Social Aspect |
| KPI B8.1 | Focus areas of contribution (e.g. education, environmental concerns, labour needs, health, culture, sport). | Disclosed | VI: Social Aspect |
| KPI B8.2 | Resources contributed (e.g. money or time) to the focus area. | Disclosed | VII: Performance Data Summary |

# DIRECTORS' REPORT

The Directors are pleased to present their annual report and the audited consolidated financial statements for the year ended 31 December 2020.

## PRINCIPAL ACTIVITIES

The Company acts as an investment holding company. The activities of its principal subsidiaries are set out in note 37 to the consolidated financial statements.

## SEGMENTAL INFORMATION

An analysis of the Group's revenue and results by principal activities for the year ended 31 December 2020 is set out in note 5 to the consolidated financial statements.

## RESULTS

The results of the Group for the year ended 31 December 2020 are set out in the consolidated statement of profit or loss and other comprehensive income on pages 83 to 84.

The board of Directors does not recommend the payment of any dividend for the year ended 31 December 2020.

## BUSINESS REVIEW

The business review of the Group for the year is set out in the section headed "Management Discussion and Analysis" on pages 6 to 13 of this report.

Information on the Company's corporate governance practices is set out in the Corporate Governance Report on pages 18 to 33.

The Group recognises the importance of compliance with rules and regulations and the impact of non-compliance with such rules and regulations on the business. The Group has been allocating system and staff resources to ensure ongoing compliance with rules and regulations and to maintain cordial working relationships with regulators effectively through effective communications. During the year ended 31 December 2020, the Group has complied, to the best of its knowledge, with all relevant rules and regulations that have a significant impact on the Company.

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

## FIVE YEAR FINANCIAL SUMMARY

A summary of the results and the assets and liabilities of the Group for the last five financial years is set out on page 160 of this report.

# DIRECTORS' REPORT

## PRINCIPAL RISKS AND UNCERTAINTIES

The following list is a summary of certain principal risks and uncertainties facing the Group:

- changes in the PRC's economic conditions in general;
- changes in government regulations;
- the ability to generate sufficient liquidity internally and obtain external financing;
- the ability to recruit and train competent employees;
- the ability to adapt to new markets where we have no prior experience and in particular, whether we can adapt to the administrative, regulatory and tax environments in such markets; and
- the ability to improve the Group's administrative, technical, operational and financial infrastructure.

However, the above is not an exhaustive list. Investors are advised to make their own judgment or consult their own investment advisors before making any investment in the shares of the Company.

## ENVIRONMENTAL POLICIES AND PERFORMANCE

The Group is committed to operate its business in compliance with applicable environmental protection laws and regulations and has implemented relevant environmental protection measures in compliance with the required standards under applicable PRC laws and regulations.

## RELATIONSHIP WITH STAKEHOLDERS

The Group recognises that employees, customers and business partners are keys to its sustainable development. The Group is committed to establishing a close and caring relationship with its employees, providing quality services to its customers and enhancing cooperation with its business partners. The Company provides a fair and safe workplace, promotes diversity to its staff, provides competitive remuneration and benefits and career development opportunities based on their merits and performance. The Group also puts ongoing efforts to provide adequate trainings and development resources to the employees so that they can keep abreast of the latest development of the market and the industry and, at the same time, improve their performance and self-fulfillment in their positions.

The Group understands that it is important to maintain good relationship with customers. The Group enhances the relationship by continuous interaction with customers to gain insight on the changing market demand so that the Group can respond proactively. The Group has also established procedures in place for handling customers' complaints to ensure customers' complaints are dealt with in a prompt and timely manner.

The Group is also dedicated to developing good relationship with suppliers and contractors as long-term business partners to ensure stability of the Group's business. The Group reinforces business partnerships with suppliers and contractors by ongoing communication in a proactive and effective manner so as to ensure quality and timely delivery.

# DIRECTORS' REPORT

## MAJOR CUSTOMERS AND SUPPLIERS

During the year, the aggregate sales attributable to the Group's five largest customers was approximately 15.37% of the Group's total sales while the sales attributable to the Group's largest customer was approximately 6.30% of the Group's total sales.

During the year, the aggregate purchases attributable to the Group's five largest suppliers was approximately 14.88% of the Group's total purchases while the purchases attributable to the Group's largest supplier was approximately 4.04% of the Group's total purchases.

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

## SHARE CAPITAL AND SHARE OPTION

Details of movements in the issued share capital of the Company during the year ended 31 December 2020 are set out in note 30 to the consolidated financial statements.

Details of movements in the Company's share options during the year ended 31 December 2020 are set out in note 31 to the consolidated financial statements.

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

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities during the year ended 31 December 2020.

## RETIREMENT BENEFITS SCHEME

Details of the Group's retirement benefits scheme in operation for the year ended 31 December 2020 are set out in note 3.12 to the consolidated financial statements.

## DISTRIBUTABLE RESERVES OF THE COMPANY

As at 31 December 2020, there is no reserves available for distribution for the Company. The reserves of the Company only comprises of contributed surplus amounted to HK$24,930,000 which is insufficient to cover the accumulated losses of the Company of HK$531,798,000.

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

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

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

# DIRECTORS' REPORT

## PROPERTY, PLANT AND EQUIPMENT AND RIGHT-OF-USE ASSETS

Details of movements in property, plant and equipment and right-of-use assets of the Group during the year ended 31 December 2020 are set out in note 13 to the consolidated financial statements.

## DIRECTORS

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

### Executive Directors

Mr. Zhang Huagang *(Chairman)* (appointed on 9 April 2020)
Mr. Luo Jun *(Co-Vice Chairman and Chief Executive Officer)*
Mr. Wu Tianyu *(Co-Vice Chairman)*
Mr. Kwok Ying Shing (ceased to act as Chairman on 9 April 2020)
Mr. Xu Hao (resigned on 1 April 2020)

### Independent non-executive Directors

Dr. Liu Yanwen
Dr. Lyu Aiping
Ms. Li Yonglan (appointed on 6 March 2021)
Mr. Lau Shui Fung (resigned on 1 April 2020)
Mr. Fok Hei Yu (resigned on 4 March 2021)

In accordance with the bye-law 87 of the bye-laws of the Company and in compliance with code provision A.4.2 of the CG Code, Mr. Luo Jun, Mr. Kwok Ying Shing, Dr. Liu Yanwen and Ms. Li Yonglan shall retire from office by rotation and being eligible, Mr. Luo Jun, Mr. Kwok Ying Shing, Dr. Liu Yanwen and Ms. Li Yonglan will offer themselves for re-election at the forthcoming annual general meeting ("AGM").

## DIRECTORS' SERVICE CONTRACTS

Mr. Zhang Huagang, being an executive Director and the Chairman, entered into service contract with the Company for an initial term of three years commencing on 9 April 2020, which can be terminated by either party giving not less than three months's notice in writing. The service contract was automatically renewed if no notice is given for both Mr. Zhang Huagang and the Company.

Mr. Luo Jun, being an executive Director, the Co-Vice Chairman and the Chief Executive Director, entered into service contract with the Company for an initial term of three years commencing on 2 December 2016, which can be terminated by either party giving not less than three months' notice in writing. Mr. Luo has entered into a supplemental letter with the Company dated 26 February 2019 to amend and supplement the terms of the existing service contract. The service contract has been renewed for a term of three years on 2 December 2019 with additional clause for automatic renewal of this contract if no notice is given for both Mr. Luo and the Company.

# DIRECTORS' REPORT

## DIRECTORS' SERVICE CONTRACTS – continued

Mr. Wu Tianyu, being an executive Director and the Co-Vice Chairman, entered into service contract with the Company for an initial term of three years commencing on 21 May 2015, which can be terminated by either party giving not less than three months' notice in writing. The service contract was automatically renewed if no notice is given for both Mr. Wu and the Company. Mr. Wu has entered into a supplemental letter with the Company dated 26 February 2019 to amend and supplement the terms of the existing service contract.

Mr. Kwok Ying Shing, being an executive Director, entered into service contract with the Company for an initial term of three years commencing on 26 February 2019, which can be terminated by either party giving not less than three months' notice in writing.

Dr. Liu Yanwen, being an independent non-executive Director, entered into a letter of appointment with the Company for a term of two years commencing from 11 January 2017, which can be terminated by either party giving not less than one month advance notice in writing. The letter of appointment has been renewed for a term of two years commencing from 11 January 2019 and 11 January 2021 respectively.

Dr. Lyu Aiping, being an independent non-executive Director, entered into a letter of appointment with the Company respectively for a term of two years commencing from 5 March 2018, which can be terminated by either party giving not less than one month advance notice in writing. The letters of appointment have been renewed for a term of two years commencing from 5 March 2020.

Ms. Li Yonglan, being an independent non-executive Director, entered into a letter of appointment with the Company respectively for a term of two years commencing from 6 March 2021, which can be terminated by either party giving not less than one month advance notice in writing.

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

## DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed in the share options disclosures in note 31 to the consolidated financial statements, at no time during the year was the Company, its subsidiaries or any of its associated corporations (within the meaning of Part XV of the SFO) a party to any arrangement to enable the Directors or their associates (as defined in the Listing Rules) to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

# DIRECTORS' REPORT

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

At 31 December 2020, the interests and short positions of the Directors and the chief executives in the shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register maintained by the Company pursuant to section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code and the SFO, were as follows:

### (a) Long position in the shares of the Company

| Name | Capacity/ nature of interest | Number of shares held | Approximate percentage of the issued share capital of the Company |
|---|---|---|---|
| Mr. Kwok Ying Shing | Interest of controlled corporation | 308,000,000 | 6.11% |
| | Interest of spouse | 2,020,000 | 0.04% |
| Mr. Wu Tianyu | Beneficial owner | 206,910,000 | 4.10% |
| Ms. Jiang Sisi | Interest of spouse | 206,910,000 (Note 1) | 4.10% |

Note 1: Mr. Wu Tianyu, executive Director has personal interests in 206,910,000 shares and Ms. Jiang Sisi is the spouse of Mr. Wu Tianyu and therefore was deemed to be interested in these shares.

# DIRECTORS' REPORT

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

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

| Name | Number of share options held | Number of underlying shares of the Company | Exercisable price | Approximate percentage of the issued share capital of the Company |
|---|---|---|---|---|
| Mr. Zhang Huagang | 50,000,000 (note 1) | 50,000,000 | HK$0.196 | 0.99% |
| Mr. Luo Jun | 40,000,000 (note 1) | 40,000,000 | HK$0.196 | 0.79% |
| Mr. Wu Tianyu (note 2) | 38,000,000 (note 3) | 38,000,000 | HK$0.40 | 0.75% |
| | 20,000,000 (note 1) | 20,000,000 | HK$0.196 | 0.40% |
| | 58,000,000 | 58,000,000 | | |
| Ms. Jiang Sisi (note 2) | 38,000,000 (note 3) | 38,000,000 | HK$0.40 | 0.75% |
| | 10,000,000 (note 1) | 10,000,000 | HK$0.196 | 0.20% |
| | 48,000,000 | 48,000,000 | | |
| Dr. Liu Yanwen | 6,000,000 (note 1) | 6,000,000 | HK$0.196 | 0.12% |
| Mr. Fok Hei Yu | 6,000,000 (note 1 & 4) | 6,000,000 | HK$0.196 | 0.12% |
| Dr. Lyu Aiping | 6,000,000 (note 1) | 6,000,000 | HK$0.196 | 0.12% |

# DIRECTORS' REPORT

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

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

Note 1: These share options were granted on 22 July 2020. 30% of the granted share option would vest on 22 July 2021 and be exercisable from 22 July 2021 to 21 July 2030. Another 30% of the granted share options would vest on 22 July 2022 and be exercisable from 22 July 2022 to 21 July 2030. The remaining 40% of the granted share options would vest on 22 July 2023 and be exercisable from 22 July 2023 to 21 July 2030.

Note 2: Ms. Jiang Sisi is the Chief Operating Officer of the Group and also the director of certain subsidiaries of the Company. Ms. Jiang is also the spouse of Mr. Wu Tianyu. As such, Ms. Jiang Sisi and Mr. Wu Tianyu were deemed or taken to be interested in the share options of each other for the purposes of the SFO. The aggregate family interest in share options is 106,000,000 as at 31 December 2020.

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

Note 4: Mr. Fok Hei Yu resigned as an independent non-executive Director on 4 March 2021. The share options granted will be lapsed 30 days after cessation of employment according to the Share Option Scheme.

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

Save as disclosed above, as at 31 December 2020, so far as is known to any Directors or chief executives of the Company, none of the Directors or chief executives of the Company had any interests or short positions in the shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) which (a) were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO) or (b) were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein or (c) were required, pursuant to the Model Code to be notified to the Company and the Stock Exchange.

# DIRECTORS' REPORT

## DIRECTORS' INTERESTS IN COMPETING BUSINESS

The Directors are of the view that none of the Directors has competed, or is likely to compete, either directly or indirectly, with the businesses of the Group, nor have they caused any harm to any interests owned by the Company during the year ended 31 December 2020.

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

As at 31 December 2020, the following persons (other than the Directors and chief executives of the Company) had or were deemed or taken to have an interest and/or short position in the shares or the underlying shares which would fall to be disclosed under the provisions of Divisions 2 and 3 of Part XV of the SFO as recorded in the register required to be kept by the Company under section 336 of the SFO, or who was, directly or indirectly, interested in 5% or more of the issued shares of the Company.

| Name of shareholder | Long position/ short position | Nature of interests | Number of issued ordinary shares held | Approximate percentage of the issued ordinary share capital of the Company |
|---|---|---|---|---|
| Kaisa Group Holdings Ltd. (Note 1) | Long position | Beneficial owner | 2,167,600,491 | 42.99% |
| Ying Hua Holdings Limited (Note 2) | Long position | Beneficial owner | 308,000,000 | 6.11% |
| Mr. Kwok Ying Shing (Note 2) | Long position | Interest of controlled corporation | 308,000,000 | 6.11% |
| Gao Lang Limited (Note 3) | Long position | Interest of controlled corporation | 458,720,256 | 9.10% |
| Mr. Huang Xiao Gang (Note 3) | Long position | Interest of controlled corporation | 458,720,256 | 9.10% |
| ABG II-RYD Limited (Note 4) | Long position | Beneficial owner | 270,300,000 | 5.36% |
| Ally Bridge Group Capital Partners II, L.P. (Note 4) | Long position | Interest of controlled corporation | 270,300,000 | 5.36% |
| ABG Capital Partners II GP, L.P. (Note 4) | Long position | Interest of controlled corporation | 270,300,000 | 5.36% |
| ABG Capital Partners II GP Limited (Note 4) | Long position | Interest of controlled corporation | 270,300,000 | 5.36% |
| Mr. Yu Fan (Note 4) | Long position | Interest of controlled corporation | 270,300,000 | 5.36% |

# DIRECTORS' REPORT

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

Note:

1. According to the information available to the Company, Kaisa Group is a company incorporated in Cayman Islands and is listed on the Main Board of the Stock Exchange (Stock Code: 1638).

2. According to the information available to the Company, Ying Hua Holdings Limited is a company incorporated in the BVI and is wholly owned by Mr. Kwok Ying Shing who is also an executive director and a substantial shareholder of Kaisa Group (note 1).

3. According to the information available to the Company, Gao Lang Limited is a company incorporated in the BVI and is wholly owned by Mr. Huang Xiao Gang.

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

Save as disclosed above, as at 31 December 2020, the Directors and chief executive of the Company were not aware of any person (other than a Director or chief executive of the Company) who had any other interests or short positions in the Shares or underlying Shares of the Company which would fall to be disclosed to the Company under Divisions 2 and 3 of Part XV of the SFO.

## SHARE OPTION SCHEME

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

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

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

# DIRECTORS' REPORT

## SHARE OPTION SCHEME – continued

2. The maximum number of Shares in respect of which options under this Scheme or options under the other schemes may be granted must not in aggregate exceed 10% of the issued share capital of the Company at the date of approval of the Scheme i.e. 382,620,703 shares, representing 10% of the total issued share capital of the Company as at the date of adoption of the scheme, and 7.59% of the total issued share capital of the Company as at the date of this report and such limit may be increased from time to time to 10% of the shares in issue as at the date of such shareholder's approval.

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

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

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

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

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

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

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

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

# DIRECTORS' REPORT

## SHARE OPTION SCHEME – continued

The refreshment of the Scheme limit was approved by an ordinary resolution passed by shareholders of the Company on 22 June 2020. Subject to and conditional upon the Listing Committee of The Stock Exchange of Hong Kong Limited granting the listing of, and permission to deal in, the additional shares of HK$0.00125 each in the share capital of the Company to be issued pursuant to the exercise of options which may be granted under the Scheme, the refreshment of the limit in respect of the granting of options to subscribe for Shares under the Scheme be and is hereby approved, provided that:

1. the total number of Shares in respect of which options may be granted under the Scheme shall not exceed 10% of the total number of Shares in issue as at the date of passing this resolution (the "Refreshed Limit") i.e. 5,042,139,374 Shares;

2. options previously granted under the Scheme (including those outstanding, cancelled, lapsed or exercised in accordance with the terms of the Scheme) will not be counted for the purpose of calculating the Refreshed Limit;

3. the Directors be and are hereby unconditionally authorised to offer or grant options pursuant to the Scheme to subscribe for Shares up to the Refreshed Limit and to exercise all the powers of the Company to allot, issue and deal with the Shares upon the exercise of such options; and

4. such increase in the Refreshed Limit shall in no event result in the number of Shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Scheme and any other schemes of the Company exceed 30% of the Shares in issue from time to time.

# DIRECTORS' REPORT

## SHARE OPTION SCHEME – continued

Movement of share options during the year ended 31 December 2020 is as follows:

| Name | Balance as at 1 January 2020 | Granted during the year | Exercised during the year | Forfeited/ Lapsed during the year | Balance as at 31 December 2020 | Exercisable price | Approximate percentage of the issued share capital of the Company |
|---|---|---|---|---|---|---|---|
| Mr. Zhang Huagang | – | 50,000,000 (note 1) | – | – | 50,000,000 | HK$0.196 | 0.99% |
| Mr. Luo Jun | – | 40,000,000 (note 1) | – | – | 40,000,000 | HK$0.196 | 0.79% |
| Mr. Wu Tianyu (note 2) | 74,070,000 (note 4) | – | – | (74,070,000) | – | HK$0.784 | Nil |
| | 38,000,000 (note 5) | – | – | – | 38,000,000 | HK$0.40 | 0.75% |
| | – | 20,000,000 (note 1) | – | – | 20,000,000 | HK$0.196 | 0.40% |
| | 112,070,000 | 20,000,000 | – | (74,070,000) | 58,000,000 | | |
| Ms. Jiang Sisi (note 2) | 74,070,000 (note 4) | – | – | (74,070,000) | – | HK$0.784 | Nil |
| | 38,000,000 (note 5) | – | – | – | 38,000,000 | HK$0.40 | 0.75% |
| | – | 10,000,000 (note 1) | – | – | 10,000,000 | HK$0.196 | 0.20% |
| | 112,070,000 | 10,000,000 | – | (74,070,000) | 48,000,000 | | |
| Dr. Liu Yanwen | – | 6,000,000 (note 1) | – | – | 6,000,000 | HK$0.196 | 0.12% |
| Mr. Fok Hei Yu | – | 6,000,000 (note 1 & 7) | – | – | 6,000,000 | HK$0.196 | 0.12% |
| Dr. Lyu Aiping | – | 6,000,000 (note 1) | – | – | 6,000,000 | HK$0.196 | 0.12% |
| Employees and consultants | 7,000,000 (note 3) | – | – | (7,000,000) | – | HK$0.784 | Nil |
| | 28,000,000 (note 5 & 6) | – | – | (6,200,000) | 21,800,000 | HK$0.40 | 0.43% |
| | – | 10,000,000 (note 1) | – | – | 10,000,000 | HK$0.196 | 0.20% |
| | 35,000,000 | 10,000,000 | – | (13,200,000) | 31,800,000 | | |
| | 259,140,000 | 148,000,000 | – | (161,340,000) | 245,800,000 | | |

# DIRECTORS' REPORT

## SHARE OPTION SCHEME – continued

Note 1: These share options were granted on 22 July 2020. 30% of the granted share option would vest on 22 July 2021 and be exercisable from 22 July 2021 to 21 July 2030. Another 30% of the granted share options would vest on 22 July 2022 and be exercisable from 22 July 2022 to 21 July 2030 . The remaining 40% of the granted share options would vest on 22 July 2023 and be exercisable from 22 July 2023 to 21 July 2030.

Note 2: Ms. Jiang Sisi is the Chief Operating Officer of the Group and also the director of certain subsidiaries of the Company. She is also the spouse of Mr. Wu Tianyu. As such, Ms. Jiang Sisi and Mr. Wu Tianyu were deemed or taken to be interested in the share options of each other for the purposes of the SFO. The aggregate family interest in share options is 106,000,000 as at 31 December 2020.

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

Note 4: These share options were granted on 24 July 2015. 25% of the granted share options would vest on 16 June 2016 and be exercisable from 16 June 2016 to 15 June 2020. Another 25% of the granted share options would vest on 16 June 2017 and be exercisable from 16 June 2017 to 15 June 2020. A further 25% of the granted share options would vest on 16 June 2018 and be exercisable from 16 June 2018 to 15 June 2020. The remaining 25% of the granted share options would vest on 16 June 2019 and be exercisable from 16 June 2019 to 15 June 2020. All the share options were lapsed on 15 June 2020.

Note 5: These share options were granted on 12 September 2016. 30% of the granted share options would vest on 12 September 2017 and be exercisable from 12 September 2017 to 11 September 2022. Another 25% of the granted share options would vest on 12 September 2018 and be exercisable from 12 September 2018 to 11 September 2022. A further 20% of the granted share options would vest on 12 September 2019 and be exercisable from 12 September 2019 to 11 September 2022. A further 15% of the granted share options would vest on 12 September 2020 and be exercisable from 12 September 2020 to 11 September 2022. The remaining 10% of the granted share options would vest on 12 September 2021 and be exercisable from 12 September 2021 to 11 September 2022.

Note 6: Included in the balance represents 8,000,000 share options granted to Ms. Wu Ansheng who is the General Manager and Sales Director of a subsidiary of the Group and a sister of Mr. Wu Tianyu.

Note 7: Mr. Fok Hei Yu resigned as an independent non-executive Director on 4 March 2021. The share option granted will be lapsed 30 days after cessation of employment according to the Share Option Scheme.

## CONNECTED TRANSACTIONS

The Group had entered into the following transactions with connected parties, as defined under the Listing Rules, during the year ended 31 December 2020 and up to the date of this report:

(i) During the year ended 31 December 2020, the Group had rented 2 properties from Kaisa Group. amounted to approximately HK$372,000 and paid loan interest to Kaisa Group. amounted to approximately HK$152,000. Kaisa Group is a substantial shareholder of the Company and therefore is a connected person of the Company under Chapter 14A of the Listing Rules and the lease and the loan interest constituted exempted connected transactions of the Company under Chapter 14A of the Listing Rules.

# DIRECTORS' REPORT

## CONNECTED TRANSACTIONS – continued

(ii) During the year ended 31 December 2020, the Group had paid management fee to Kaisa Financial Group Company Ltd. amounted to approximately HK$70,000. Kaisa Financial Group Company Ltd. is a fellow subsidiary of the Group under the same ultimate holding company, Kaisa Group. Therefore, Kaisa Financial Group Company Ltd. is a connected person of the Group under Chapter 14A of the Listing Rules and the management fee constituted an exempted connected transaction of the Group under Chapter 14A of the Listing Rules.

(iii) During the year ended 31 December 2020, the Group had disposed an unlisted managed fund at a consideration amounted to approximately HK$26.7 million to Peng Ze (Hong Kong) Limited, a subsidiary of Gao Lang Limited under a non-controlling shareholder Mr. Huang Xiao Gang. Therefore Peng Ze (Hong Kong) Limited is a connected person of the Group under Chapter 14A of the Listing Rules. Since all applicable percentage ratios in relation to the consideration is less than 0.1%, no announcement is required for disclosure of this transaction under Chapter 14A of the Listing Rules.

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

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

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

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

## MANAGEMENT CONTRACTS

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

## DIRECTOR'S INTERESTS IN CONTRACTS

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

## USE OF PROCEEDS FROM RIGHTS ISSUE

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

# DIRECTORS' REPORT

## USE OF PROCEEDS FROM RIGHTS ISSUE – continued

On 13 March 2018, since the parties were not able to come to an agreement on certain terms of the Proposed Acquisition of the Target Company, including but not limited to, the valuation of the target company and price adjustment mechanism, the Company announced to terminate the Proposed Acquisition of the Target Company. As disclosed in the rights issue prospectus of the Company dated 20 October 2017, in case the Proposed Acquisition of the Target Company does not proceed, the Company will first apply the proceeds to working capital for the Company's current product offerings, specifically, the 3D oral scanner and the Mega Clear Aligner (the "Existing Products"), and consider other potential acquisitions in the dental prosthetic and other dentistry areas (the "Other Potential Acquisitions"). The Company is considering the Other Potential Acquisitions and are in discussions with potential acquisition targets. For details, please refer to the announcement of the Company dated 13 March 2018.

On 4 May 2018, due to the escalation of the tense trade relationships among various countries, the Board considered to be more prudent for the Company to take a more cautious approach for the expansion of the Group's production capacity. It is currently expected that the Group shall enhance its business diversification and risk resistance capacity in order to better cope with the uncertainty of international market. Therefore, the Board decided to re-allocate the sum of approximately HK$246 million allocated for the purpose of the Acquisition of Land to the investment opportunities within the health care industry in the PRC. On 3 August 2018, the Group has entered the transaction with a subsidiary of Kaisa Group, the controlling shareholder of the Company, for the acquisition of the target companies engaged in the provision of public health and medical services. For details, please refer to the announcements of the Company dated 4 May 2018, 24 May 2018, 3 August 2018, 14 December 2018 and 24 May 2019 and the Circular of the Company dated 28 November 2018.

Together with the re-allocation and change of use of the proceeds from the Rights Issue, the net proceeds from the Rights Issue will be allocated in the following manner: (i) approximately HK$246 million applied to investments within the health care industry in the PRC; (ii) approximately HK$164.16 million would be applied to the Seeking Suitable Investment Opportunities; and (iii) approximately HK$97 million to the Continuous Development of Dental Business.

As of the date of this report, (i) approximately HK$246 million has been used for investments within the health care industry in the PRC, (ii) approximately HK$164.16 million has been used for Seeking Suitable Investment Opportunities, and (iii) approximately HK$93.96 million has been used for the Continuous Development of Dental Business. Approximately HK$3.04 million of the actual proceeds from the Rights Issue remained unutilised and will be applied in accordance with the intended usage.

## PERMITTED INDEMNITY PROVISIONS

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

# DIRECTORS' REPORT

## INDEPENDENT NON-EXECUTIVE DIRECTORS' CONFIRMATION

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

## EMOLUMENT POLICY

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

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

## PRE-EMPTIVE RIGHTS

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

## SUFFICIENCY OF PUBLIC FLOAT

Based on information publicly available to the Company and within the knowledge of the directors, the Company has maintained a sufficient public float throughout the year ended 31 December 2020 and as at the date of this report.

## AUDIT COMMITTEE

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

The Audit Committee of the Board was established with written terms of reference in accordance with Appendix 14 to the Listing Rules. As at the date of this report, the Audit Committee comprised three independent non-executive Directors, namely Dr. Liu Yanwen (chairman), Dr. Lyu Aiping and Ms. Li Yonglan. Mr. Fok Hei Yu was a member of the Audit Committee during the year and resigned as a member of the Audit Committee on 4 March 2021.

The Audit Committee met with the management on 24 March 2021 to review the accounting standards and practices adopted by the Group and to discuss matters regarding internal control and financial reporting including the review of the Group's annual results for the year ended 31 December 2020, before proposing them to the Board for approval. The Audit Committee has reviewed the audited final results announcement and the accompanying financial statement for the year ended 31 December 2020.

# DIRECTORS' REPORT

## CHANGE OF AUDITORS

Deloitte Touche Tohmatsu ("Deloitte") has resigned as auditors of the Company with effect from 1 December 2017. The Board has appointed Grant Thornton Hong Kong Limited as the auditors of the Company to fill the casual vacancy following the resignation of Deloitte.

Grant Thornton Hong Kong Limited is the auditors of Kaisa Group, the controlling shareholder of the Company. The proposed change of auditors will enable the Company to align the audit arrangements between the Company and Kaisa Group and thus enhancing the efficiency of the audit services and saving cost and is considered by the Board to be in the best interest of the Company as well as its shareholders as a whole.

## AUDITOR

The consolidated financial statements of the Company for the year ended 31 December 2020 were audited by Grant Thornton Hong Kong Limited. A resolution will be proposed at the forthcoming AGM to re-appoint Grant Thornton Hong Kong Limited as the auditor of the Company.

On behalf of the Board

**Luo Jun**
*Chief Executive Officer*
Hong Kong, 24 March 2021

# INDEPENDENT AUDITOR'S REPORT

Grant Thornton
致同

**To the members of Kaisa Health Group Holdings Limited 佳兆業健康集團控股有限公司**
*(incorporated in Bermuda with limited liability)*

## Opinion

We have audited the consolidated financial statements of Kaisa Health Group Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 83 to 159, which comprise the consolidated statement of financial position as at 31 December 2020, and the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2020, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of Hong Kong Companies Ordinance.

## Basis for Opinion

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

## Key Audit Matters

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

# INDEPENDENT AUDITOR'S REPORT

## Key Audit Matters – continued

| Key audit matter | How our audit addressed the key audit matter |
|---|---|
| **Valuation of convertible promissory note, unlisted equity investment and convertible bonds receivable** | |
| We identified the valuation of convertible promissory note, unlisted equity investment and convertible bonds receivable as a key audit matter due to significant judgments and assumptions involved.<br><br>As disclosed in notes 18, 19 and 22 to the consolidated financial statements, the carrying amounts of convertible promissory note and unlisted equity investment measured at fair value as at 31 December 2020 and convertible bonds receivable measured at fair value as at the Extended Maturity Date are HK$33,005,000, HK$269,206,000 and HK$48,563,000 respectively, and gain/(loss) from change in fair value of approximately HK$5,044,000, approximately HK$22,670,000 and approximately HK$(524,000) respectively are recorded in profit or loss for the year ended 31 December 2020.<br><br>The Group engaged independent qualified professional valuer to perform the valuation of convertible promissory note, unlisted equity investment and convertible bonds receivable. Significant judgments and assumptions, including valuation methodologies and key inputs used, are required to determine the fair value of financial assets by the valuer. | Our audit procedures in relation to the valuation of convertible promissory note, unlisted equity investment and convertible bonds receivable included:<br><br>• evaluating the independent external valuer's competence, capabilities and objectivity;<br><br>• engaging professional valuation expert to evaluate the appropriateness of the valuation model and key inputs used in determining the fair value of financial assets, and check the mathematical accuracy of the valuation model;<br><br>• reviewing the key terms of the purchase agreements of convertible promissory note, unlisted equity investment and convertible bonds receivable to obtain understanding of the terms of the transactions; and<br><br>• reviewing the adequacy of the disclosures made in notes to the consolidated financial statements. |

# INDEPENDENT AUDITOR'S REPORT

## Key Audit Matters – continued

| Key audit matter | How our audit addressed the key audit matter |
| --- | --- |
| ***Valuation of trade receivables*** | |
| We identified the valuation of trade receivables as a key audit matter due to the use of judgment and estimation by management in assessing the recoverability of trade receivables.<br><br>Expected credit loss ("ECL") allowances for trade receivables are based on management's estimate of the lifetime ECL to be incurred, which is estimated based on comparable probability of default and recovery rate quoted from international credit-rating agencies; and adjusted for forward-looking information, all of which involve a significant degree of management's estimates and judgment.<br><br>At 31 December 2020, the carrying amount of trade receivables is approximately HK$88,279,000 as set out in note 21 to the consolidated financial statements. | Our audit procedures in relation to the valuation of trade receivables included:<br><br>• obtaining an understanding of how the ECL allowances for trade receivables is estimated by the management and testing the key controls of the Group relating to the preparation of the aging analysis of trade receivables and the credit risk assessment;<br><br>• testing the aging analysis of trade receivables, on a sample basis, to the source documents including goods delivery notes and sales invoices;<br><br>• reviewing the aging analysis of trade receivables throughout the year to understand the settlement patterns by the customers;<br><br>• evaluating the independent external valuer's competence, capabilities and objectivity;<br><br>• discussing the independent external valuer and obtained the independent ECL valuation report to reassess the ECL allowances for trade receivables;<br><br>• evaluating the appropriateness of the valuation model and key inputs used in determining ECL allowances for trade receivables, and check the mathematical accuracy of the valuation model; and<br><br>• assessing the reasonableness of management's ECL allowances estimates by examining the information used by the independent external valuer to form such judgment, including checking the loss rates of the debtors to independent source, comparing historical default rates and evaluating whether the loss rates are appropriately adjusted for forward-looking information. |

# INDEPENDENT AUDITOR'S REPORT

## Other Information

The directors are responsible for the other information. The other information comprises all the information in the 2020 annual report of the Company, but does not include the consolidated financial statements and our auditor's report thereon.

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

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

## Responsibilities of Directors for the Consolidated Financial Statements

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

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

The directors assisted by the Audit Committee are responsible for overseeing the Group's financial reporting process.

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

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

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

# INDEPENDENT AUDITOR'S REPORT

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

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

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

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

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

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

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

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

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

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

# INDEPENDENT AUDITOR'S REPORT

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

From the matters communicated with the Audit Committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

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

24 March 2021

**Chiu Wing Ning**
Practising Certificate No.: P04920

# CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

*For the year ended 31 December 2020*

| | Notes | 2020<br>HK$'000 | 2019<br>HK$'000 |
|---|---|---|---|
| **Revenue** | 5 | **183,810** | 251,618 |
| Cost of sales | | **(93,847)** | (128,728) |
| **Gross profit** | | **89,963** | 122,890 |
| Other income, gains and losses | 6 | **7,840** | 18,332 |
| Selling and distribution costs | | **(32,332)** | (50,369) |
| Administrative expenses | | **(79,106)** | (74,992) |
| Net gain from change in fair value of financial assets at fair value through profit or loss | 19 | **22,670** | 13,760 |
| Gain/(Loss) from change in fair value of convertible promissory note | 18 | **5,044** | (1,181) |
| Loss from change in fair value of convertible bonds receivable | 22 | **(524)** | (116) |
| Impairment loss on intangible assets | | **–** | (27,068) |
| Impairment loss on goodwill | | **–** | (330,805) |
| Impairment loss on trade receivables | | **(286)** | (156) |
| Impairment loss on amount due from a director | | **(2,371)** | – |
| Impairment loss on convertible bonds receivable | 22 | **(30,838)** | – |
| Other expenses | | **(20,446)** | (32,609) |
| Finance costs | | **(1,087)** | (357) |
| **Loss before income tax** | 7 | **(41,473)** | (362,671) |
| Income tax credit | 10 | **778** | 7,625 |
| **Loss for the year** | | **(40,695)** | (355,046) |
| **Other comprehensive income/(expense), including reclassification adjustments** | | | |
| *Items that may be reclassified subsequently to profit or loss:* | | | |
| Exchange differences arising on translation of foreign operations | | **30,985** | (12,231) |
| **Total comprehensive expense for the year** | | **(9,710)** | (367,277) |

# CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

*For the year ended 31 December 2020*

| | Notes | 2020<br>HK$'000 | 2019<br>HK$'000 |
|---|---|---|---|
| **Loss for the year attributable to:** | | | |
| – Owners of the Company | | **(39,692)** | (354,673) |
| – Non-controlling interests | | **(1,003)** | (373) |
| | | **(40,695)** | (355,046) |
| **Total comprehensive expense for the year attributable to:** | | | |
| – Owners of the Company | | **(9,634)** | (366,909) |
| – Non-controlling interests | | **(76)** | (368) |
| | | **(9,710)** | (367,277) |
| | | **HK cents** | HK cents |
| **Loss per share** | 12 | | |
| – Basic | | **(0.79)** | (7.03) |
| – Diluted | | **(0.79)** | (7.03) |

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

*As at 31 December 2020*

| | Notes | 2020 HK$'000 | 2019 HK$'000 |
|---|---|---|---|
| **Non-current assets** | | | |
| Property, plant and equipment | 13 | **31,709** | 36,265 |
| Right-of-use assets | 13 | **22,906** | 7,389 |
| Land use rights | 14 | **46,583** | – |
| Intangible assets | 15 | **987** | 620 |
| Investment in an associate | 16 | **–** | – |
| Convertible promissory note | 18 | **33,005** | 28,086 |
| Deposits | 21 | **20,080** | – |
| Financial assets at fair value through profit or loss | 19 | **269,206** | 229,879 |
| Deferred tax assets | 29 | **593** | – |
| | | **425,069** | 302,239 |
| **Current assets** | | | |
| Inventories | 20 | **6,729** | 6,850 |
| Trade and other receivables | 21 | **105,898** | 74,145 |
| Financial assets at fair value through profit or loss | 19 | **–** | 28,143 |
| Convertible bonds receivable | 22 | **18,842** | 46,323 |
| Amount due from a director | 23 | **21,093** | 24,519 |
| Amounts due from fellow subsidiaries | | **207** | – |
| Amounts due from a non-controlling shareholder of subsidiaries | 24 | **477** | 22 |
| Taxation recoverable | | **2,624** | 2,440 |
| Bank balances and cash | 25 | **176,600** | 230,176 |
| | | **332,470** | 412,618 |
| **Current liabilities** | | | |
| Trade and other payables | 26 | **73,257** | 64,686 |
| Lease liabilities | 27 | **6,025** | 2,484 |
| Amount due to a related party | 28 | **764** | 716 |
| Amounts due to fellow subsidiaries | 24 | **862** | – |
| Amount due to a non-controlling shareholder of a subsidiary | 24 | **11,919** | – |
| | | **92,827** | 67,886 |
| **Net current assets** | | **239,643** | 344,732 |
| **Total assets less current liabilities** | | **664,712** | 646,971 |
| **Non-current liabilities** | | | |
| Lease liabilities | 27 | **17,211** | 5,310 |
| **Net assets** | | **647,501** | 641,661 |

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

*As at 31 December 2020*

| | Notes | 2020<br>HK$'000 | 2019<br>HK$'000 |
|---|---|---|---|
| **Equity** | | | |
| Share capital | 30 | 6,303 | 6,303 |
| Reserves | | 630,213 | 635,704 |
| **Equity attributable to owners of the Company** | | 636,516 | 642,007 |
| **Non-controlling interests** | | 10,985 | (346) |
| **Total equity** | | 647,501 | 641,661 |

The consolidated financial statements on pages 83 to 159 were approved and authorised for issue by the Board of Directors on 24 March 2021 and are signed on behalf of the Board by:

**Zhang Huagang**
*Director*

**Luo Jun**
*Director*

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

*For the year ended 31 December 2020*

| | Attributable to owners of the Company | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Share capital HK$'000 | Share premium* HK$'000 | Special reserve* HK$'000 (note) | Translation reserve* HK$'000 | Share option reserve* HK$'000 | Accumulated losses* HK$'000 | Sub-total HK$'000 | Non-controlling interests HK$'000 | Total HK$'000 |
| At 1 January 2019 | 6,303 | 984,639 | 1,545 | (3,874) | 68,538 | (52,057) | 1,005,094 | – | 1,005,094 |
| Loss for the year | – | – | – | – | – | (354,673) | (354,673) | (373) | (355,046) |
| Exchange differences arising on translation of foreign operations | – | – | – | (12,236) | – | – | (12,236) | 5 | (12,231) |
| Total comprehensive expense for the year | – | – | – | (12,236) | – | (354,673) | (366,909) | (368) | (367,277) |
| Recognition of equity-settled share-based payment (note 31) | – | – | – | – | 3,822 | – | 3,822 | – | 3,822 |
| Release of share option reserve upon share options forfeited | – | – | – | – | (880) | 880 | – | – | – |
| Capital injection to a subsidiary | – | – | – | – | – | – | – | 22 | 22 |
| At 31 December 2019 | 6,303 | 984,639 | 1,545 | (16,110) | 71,480 | (405,850) | 642,007 | (346) | 641,661 |

| | **Attributable to owners of the Company** | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | **Share capital HK$'000** | **Share premium* HK$'000** | **Special reserve* HK$'000 (note)** | **Translation reserve* HK$'000** | **Share option reserve* HK$'000** | **Accumulated losses* HK$'000** | **Sub-total HK$'000** | **Non-controlling interests HK$'000** | **Total HK$'000** |
| At 1 January 2020 | 6,303 | 984,639 | 1,545 | (16,110) | 71,480 | (405,850) | 642,007 | (346) | 641,661 |
| Loss for the year | – | – | – | – | – | (39,692) | (39,692) | (1,003) | (40,695) |
| Exchange differences arising on translation of foreign operations | – | – | – | 30,058 | – | – | 30,058 | 927 | 30,985 |
| Total comprehensive expense for the year | – | – | – | 30,058 | – | (39,692) | (9,634) | (76) | (9,710) |
| Recognition of equity-settled share-based payment (note 31) | – | – | – | – | 4,143 | – | 4,143 | – | 4,143 |
| Release of share option reserve upon share options forfeited/lapsed | – | – | – | – | (52,853) | 52,853 | – | – | – |
| Capital contributions from non-controlling interests | – | – | – | – | – | – | – | 11,407 | 11,407 |
| **At 31 December 2020** | 6,303 | 984,639 | 1,545 | 13,948 | 22,770 | (392,689) | 636,516 | 10,985 | 647,501 |

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

* The reserves accounts comprise the Group's reserve of HK$630,213,000 (2019: HK$635,704,000) in the consolidated statement of financial position.

# CONSOLIDATED STATEMENT OF CASH FLOWS

*For the year ended 31 December 2020*

| | Notes | 2020<br>HK$'000 | 2019<br>HK$'000 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Loss before income tax | | (41,473) | (362,671) |
| Adjustments for: | | | |
| Amortisation of intangible assets | 15 | 472 | 950 |
| Amortisation of land use rights | 14 | 840 | – |
| Depreciation of property, plant and equipment | 13 | 12,906 | 11,216 |
| Depreciation of right-of-use assets | 13 | 6,302 | 2,585 |
| COVID-19-related rent concessions | 6 | (153) | – |
| Loss on disposal of property, plant and equipment | | 968 | 1,447 |
| Loss/(Gain) on disposal of financial asset at fair value through profit or loss | 19 | 1,463 | (875) |
| Impairment loss on trade receivables | | 286 | 156 |
| Interest income on bank deposits | | (168) | (2,195) |
| Interest income on loan to a shareholder | | – | (163) |
| Interest income on convertible promissory note | | (479) | (421) |
| Interest income on convertible bonds receivable | | – | (6,470) |
| Dividend income on unlisted managed fund | | (607) | (1,420) |
| Gain on short-term investments | | (454) | (90) |
| Impairment loss on intangible assets | 15 | – | 27,068 |
| Impairment loss on goodwill | 17 | – | 330,805 |
| Impairment loss on amount due from a director | 23 | 2,371 | – |
| Impairment loss on convertible bonds receivable | 22 | 30,838 | – |
| Net gain from change in fair value of financial assets at fair value through profit or loss | 19 | (22,670) | (13,760) |
| (Gain)/Loss from change in fair value of convertible promissory note | 18 | (5,044) | 1,181 |
| Loss from change in fair value of convertible bonds receivable | 22 | 524 | 116 |
| Interest expenses | | 1,087 | 357 |
| Share-based payment expenses | 31 | 4,143 | 3,822 |
| Operating cash flows before movements in working capital | | (8,848) | (8,362) |
| Decrease in inventories | | 716 | 120 |
| Increase in trade and other receivables | | (27,296) | (3,202) |
| Increase in trade and other payables | | 4,380 | 4,224 |
| *Net cash used in operations* | | (31,048) | (7,220) |
| Hong Kong Profits Tax paid | | – | (655) |
| PRC Enterprise Income Tax refunded | | – | 57 |
| ***Net cash used in operating activities*** | | (31,048) | (7,818) |

# CONSOLIDATED STATEMENT OF CASH FLOWS

*For the year ended 31 December 2020*

| | Notes | 2020 HK$'000 | 2019 HK$'000 |
|---|---|---|---|
| **Cash flows from investing activities** | | | |
| Income from short-term investments | | 454 | 90 |
| Proceeds from disposal of property, plant and equipment | | 255 | 569 |
| Proceeds from disposal of financial assets at fair value through profit or loss | 19(b) | 26,680 | – |
| Purchase of property, plant and equipment | | (7,651) | (14,967) |
| Purchase of land use rights | 14 | (21,807) | – |
| Purchase of intangible assets | | (779) | (886) |
| Purchase of financial assets at fair value through profit or loss | | – | (109,875) |
| Purchase of short-term investments | | (73,168) | (236,244) |
| Proceeds from redemption of short-term investments | | 73,168 | 236,244 |
| Deposits paid for acquisition of a subsidiary | | (20,080) | – |
| Decrease in short-term bank deposits | | – | 160,000 |
| Repayment from a director | | 1,346 | 3,186 |
| Interest received | | 647 | 9,249 |
| Dividend received | | 1,217 | 811 |
| Advances to fellow subsidiaries | | (195) | – |
| Advances to a non-controlling shareholder of a subsidiary | | – | (22) |
| ***Net cash (used in)/from investing activities*** | | (19,913) | 48,155 |
| **Cash flows from financing activities** | | | |
| Advance from fellow subsidiaries | 25(b) | 814 | 1,466 |
| Advances from a non-controlling shareholder of a subsidiary | 25(b) | 117 | – |
| Payment of lease liabilities | 25(b) | (7,252) | (2,531) |
| Capital injection by non-controlling interests | | – | 22 |
| Interest paid | | (152) | – |
| ***Net cash used in financing activities*** | | (6,473) | (1,043) |
| **Net (decrease)/increase in cash and cash equivalents** | | (57,434) | 39,294 |
| Cash and cash equivalents at 1 January | | 230,176 | 194,765 |
| Effect of foreign exchange rate changes | | 3,858 | (3,883) |
| **Cash and cash equivalents at 31 December, representing bank balances and cash** | 25(a) | 176,600 | 230,176 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 31 December 2020*

## 1. GENERAL INFORMATION

The Company was incorporated in Bermuda as an exempted company with limited liability and its shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The addresses of its registered office is Clarendon House, 2 Church Street, Hamilton HM 11, Bermuda, and its principal place of business is 30/F, The Center, 99 Queen's Road Central, Central, Hong Kong. The ultimate holding company of the Company is Kaisa Group Holdings Ltd., which was incorporated in the Cayman Islands and its shares are listed on the Stock Exchange.

The Company is an investment holding company. The principal activities of its principal subsidiaries are set out in note 37.

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

### Amended HKFRSs that are effective for annual periods beginning or after 1 January 2020

In the current year, the Group has applied for the first time the following amended HKFRSs issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), which are relevant to the Group's operations and effective for the Group's consolidated financial statements for the annual period beginning on 1 January 2020:

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

In addition, on 1 January 2020, the Group has early applied the Amendments to HKFRS 16 "Covid-19-Related Rent Concessions" which will be effective for the Group for financial year beginning on or after 1 June 2020.

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

#### *Amendments to HKFRS 16 "Covid-19-Related Rent Concessions"*

Amendments to HKFRS 16 only apply to lessee accounting and have no effect on lessor accounting. The amendments provide a practical expedient that allows a lessee to by-pass the need to evaluate whether certain qualifying rent concessions occurring as a direct consequence of the COVID-19 ("COVID-19-Related Rent Concessions") are lease modification and, instead, account for those rent concessions as if they were not lease modifications.

The practical expedient is only applicable to COVID-19-Related Rent Concessions and only if all of the following conditions are met:

– the change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change;

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 31 December 2020*

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

### Amended HKFRSs that are effective for annual periods beginning or after 1 January 2020 – continued

***Amendments to HKFRS 16 "Covid-19-Related Rent Concessions" – continued***

– any reduction in lease payments affects only payments originally due on or before 30 June 2021 (for example, a rent concession would meet this condition if it results in reduced lease payments on or before 30 June 2021 and increased lease payments that extend beyond 30 June 2021); and

– there is no substantive change to other terms and conditions of the lease.

The Group has elected to early adopt the amendments and applies the practical expedient to all qualifying COVID-19-Related Rent Concessions granted to the Group during the year.

Consequently, rent concessions received have been recognised in "Other income, gains and losses" in profit or loss in the period in which the event or condition that triggers those payments occurred. There is no impact on the opening balance of equity at 1 January 2020.

### Issued but not yet effective HKFRSs

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

| | |
|---|---|
| HKFRS 17 | Insurance Contracts and related amendments[3] |
| Amendments to HKFRS 3 | Reference to the Conceptual Framework[5] |
| Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16 | Interest rate Benchmark Reform – Phase 2[1] |
| Amendments to HKFRS 10 and HKAS 28 | Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[4] |
| Amendments to HKAS 1 | Classification of Liabilities as Current or Non-current[3] |
| Amendments to HKAS 16 | Property, Plant and Equipment – Proceeds before Intended Use[2] |
| Amendments to HKAS 37 | Onerous Contracts – Cost of Fulfilling a Contract[2] |
| Amendments to HKFRSs | Annual Improvements to HKFRS Standards 2018-2020[2] |
| Accounting Guideline 5 (Revised) | Merger Accounting for Common Control Combination[5] |

[1] Effective for annual periods beginning on or after 1 January 2021
[2] Effective for annual periods beginning on or after 1 January 2022
[3] Effective for annual periods beginning on or after 1 January 2023
[4] Effective date not yet determined
[5] Effective for business combination/common control combination for which the acquisition/combination date is on or after the beginning of the first annual period beginning on or after 1 January 2022

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 31 December 2020*

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

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

### 3.1 Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries made up to 31 December each year. Control is achieved when the Company:

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

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

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

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

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

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 31 December 2020*

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

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

Non-controlling interests represent the equity on a subsidiary not attributable directly or indirectly to the Company, and in respect of which the Group has not agreed any additional terms with the holders of those interests which would result in the Group as a whole having a contractual obligation in respect of those interests that meets the definition of a financial liability. For each business combination, the Group can elect to measure any non-controlling interests either at fair value or at their proportionate share of the subsidiary's net identifiable assets.

Non-controlling interests are presented in the consolidated statement of financial position within equity, separately from the equity attributable to the owners of the Company. Non-controlling interests in the results of the Group are presented on the face of the consolidated statement of profit or loss and other comprehensive income as an allocation of the total profit or loss and total comprehensive income for the year between non-controlling interests and the owners of the Company.

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

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

### 3.3 Business combinations

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

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

- deferred tax assets or liabilities, and assets or liabilities related to employee benefit arrangements are recognised and measured in accordance with HKAS 12 "Income Taxes" and HKAS 19 "Employee Benefits" respectively;

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 31 December 2020*

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

### 3.3 Business combinations – continued

- liabilities or equity instruments related to share-based payment arrangements of the acquiree or share-based payment arrangements of the Group entered into to replace share-based payment arrangements of the acquiree are measured in accordance with HKFRS 2 "Share-based Payment" at the acquisition date (see note 3.16);

- assets (or disposal groups) that are classified as held for sale in accordance with HKFRS 5 "Non-Current Assets Held for Sale and Discontinued Operations" are measured in accordance with that standard; and

- lease liabilities are recognised and measured at the present value of the remaining lease payments as if the acquired leases were new leases at the acquisition date. Right-of-use assets are recognised and measured at the same amount as the relevant lease liabilities, adjusted to reflect favourable or unfavourable terms of the lease when compared with market terms.

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

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

### 3.4 Associates

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

In consolidated financial statements, an investment in an associate is initially recognised at cost and subsequently accounted for using the equity method. Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of the associate recognised at the date of acquisition is recognised as goodwill. The goodwill is included within the carrying amount of the investment and is assessed for impairment as part of the investment. The cost of acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed and equity instruments issued by the Group, plus any costs directly attributable to the investment. Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognised immediately in profit or loss in the determination of the Group's share of the associate's profit or loss in the period in which the investment is acquired.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 31 December 2020*

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

### 3.4 Associates – continued

Under the equity method, the Group's interest in the associate is carried at cost and adjusted for the post-acquisition changes in the Group's share of the associate's net assets less any identified impairment loss, unless it is classified as held for sale (or included in a disposal group that is classified as held for sale). The profit or loss for the year includes the Group's share of the post-acquisition, post-tax results of the associate for the year, including any impairment loss on the investment in associate recognised for the year. The Group's other comprehensive income for the year includes its share of the associate's other comprehensive income for the year.

Unrealised gains on transactions between the Group and its associate are eliminated to the extent of the Group's interest in the associates. Where unrealised losses on assets sales between the Group and its associate are reversed on equity accounting, the underlying asset is also tested for impairment from the Group's perspective. Where the associate uses accounting policies other than those of the Group for like transactions and events in similar circumstances, adjustments are made, where necessary, to conform the associate's accounting policies to those of the Group when the associate's financial statements are used by the Group in applying the equity method.

When the Group's share of losses in an associate equals or exceeds its interest in the associate, the Group does not recognise further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the associate. For this purpose, the Group's interest in the associate is the carrying amount of the investment under the equity method together with the Group's long-term interests that in substance form part of the Group's net investment in the associate.

After the application of equity method, the Group determines whether it is necessary to recognise an additional impairment loss on the Group's investment in its associate. At each reporting date, the Group determines whether there is any objective evidence that the investment in associate is impaired. If such indications are identified, the Group calculates the amount of impairment as being the difference between the recoverable amount (i.e. higher of value in use and fair value less costs of disposal) of the associate and its carrying amount. In determining the value in use of the investment, the Group estimates its share of the present value of the estimated future cash flows expected to be generated by the associate, including cash flows arising from the operations of the associate and the proceeds on ultimate disposal of the investment.

The Group discontinues the use of equity method from the date when it ceases to have significant influence over an associate.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 31 December 2020*

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

### 3.5 Goodwill

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

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

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

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

### 3.6 Revenue recognition

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

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

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

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

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

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 31 December 2020*

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

### 3.6 Revenue recognition – continued

Service and consultancy income is recognised when services are provided.

Dividend income is recognised when the right to receive payment is established.

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

### 3.7 Property, plant and equipment

Property, plant and equipment (other than cost of right-of-use assets as described in note 3.18) are initially recognised at acquisition cost or manufacturing cost, including any cost directly attributable to bringing the assets to the location and condition necessary for them to be capable of operating in the manner intended by the Group's management. They are subsequently stated at cost less accumulated depreciation and impairment losses, if any.

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

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

Accounting policy for depreciation of right-of-use assets is set out in note 3.18.

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

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

### 3.8 Land use rights

Land use rights (which meet the definition of right-of-use assets) represent the upfront payment for long-term land lease in which the payment can be reliably measured. It is stated at cost less accumulated depreciation and any accumulated impairment losses. Depreciation is calculated on a straight line basis over the term of the lease/right-of-use except where an alternative basis is more representative of the time pattern of benefits to be derived by the Group from use of the land.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 31 December 2020*

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

### 3.9 Intangible assets (other than goodwill) and research and development activities

***Intangible assets (other than goodwill)***

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

Subsequent to initial recognition, intangible assets acquired in a business combination with finite useful lives are reported at costs less accumulated amortisation and any impairment losses. Intangible assets acquired in a business combination with indefinite useful lives are carried at cost less any subsequent accumulated impairment losses (see note 3.10).

Amortisation of intangible assets with finite useful lives is provided using the straight line method, at the following rates per annum:

| | |
|---|---|
| Patents | Over the useful life of 8.7 years |
| Computer softwares | Over the useful life of 3 years |

Trademarks are considered to have indefinite useful life as such are renewable for every 10 years at minimal costs.

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

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 31 December 2020*

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

### 3.9 Intangible assets (other than goodwill) and research and development activities – continued

***Research and development costs***

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

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

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

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

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

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

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

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

All other development costs are expensed as incurred.

### 3.10 Impairment on property, plant and equipment, right-of-use assets, land use rights, investments in subsidiaries and intangible assets other than goodwill

At the end of the reporting period, the Group reviews the carrying amounts of its property, plant and equipment, right-of-use assets, land use rights, investments in subsidiaries 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). Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment at least annually, and whenever there is an indication that they may be impaired.

The recoverable amount of property, plant and equipment, right-of-use assets, land use rights, investments in subsidiaries and intangible assets are estimated individually. When it is not possible to estimate the recoverable amount individually, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

In addition, the Group assesses whether there is indication that corporate assets may be impaired. If such indication exists, corporate assets are also allocated to individual cash-generating units, when a reasonable and consistent basis of allocation can be identified, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 31 December 2020*

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

### 3.10 Impairment on property, plant and equipment, right-of-use assets, land use rights, investments in subsidiaries and intangible assets other than goodwill – continued

Recoverable amount is the higher of fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset (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. For corporate assets or portion of corporate assets which cannot be allocated on a reasonable and consistent basis to a cash-generating unit, the Group compares the carrying amount of a group of cash-generating units, including the carrying amounts of the corporate assets or portion of corporate assets allocated to that group of cash-generating units, with the recoverable amount of the group of cash-generating units. In allocating the impairment loss, the impairment loss is allocated first to reduce the carrying amount of any goodwill (if applicable) and then to the other assets on a pro-rata basis based on the carrying amount of each asset in the unit or the group of cash-generating units. The carrying amount of an asset is not reduced below the highest of its fair value less costs of disposal (if measurable), its value in use (if determinable) and zero. The amount of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other assets of the unit or the group of cash-generating units. An impairment loss is recognised immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit or a group of cash-generating units) 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 or a group of cash-generating units) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss.

### 3.11 Borrowing costs

Borrowing costs are recognised in profit or loss in the period in which they are incurred.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 31 December 2020*

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

### 3.12 Inventories

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

### 3.13 Contract liabilities

A contract liability is recognised when the customer pays consideration before the Group recognises the related revenue (see note 3.6). A contract liability would also be recognised if the Group has an unconditional right to receive consideration before the Group recognises the related revenue. In such cases, a corresponding receivable would also be recognised.

### 3.14 Retirement benefit costs

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

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

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 31 December 2020*

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

### 3.15 Short-term employee benefits

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

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

### 3.16 Share-based payment arrangements

***Equity-settled share-based payment transactions***

*Share options granted to employees*

Equity-settled share-based payments to employees and others providing similar services are measured at the fair value of the equity instruments at the grant date. Details regarding the determination of the fair value of share options at date of grant are set out in note 31.

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

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

*Share options granted to consultants*

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 31 December 2020*

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

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

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

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

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

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

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 31 December 2020*

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

### 3.17 Taxation – continued

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied to the same taxable entity by the same taxation authority.

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

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

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

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

### 3.18 Leases

***Definition of a lease and the Group as a lessee***

At inception of a contract, the Group considers whether a contract is, or contains a lease. A lease is defined as “a contract, or part of a contract, that conveys the right to use an identified asset (the underlying asset) for a period of time in exchange for consideration”. To apply this definition, the Group assesses whether the contract meets three key evaluations which are whether:

– the contract contains an identified asset, which is either explicitly identified in the contract or implicitly specified by being identified at the time the asset is made available to the Group;

– the Group has the right to obtain substantially all of the economic benefits from use of the identified asset throughout the period of use, considering its rights within the defined scope of the contract; and

– the Group has the right to direct the use of the identified asset throughout the period of use. The Group assess whether it has the right to direct “how and for what purpose” the asset is used throughout the period of use.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 31 December 2020*

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

### 3.18 Leases – continued

***Definition of a lease and the Group as a lessee – continued***

*Measurement and recognition of leases as a lessee*

At lease commencement date, the Group recognises a right-of-use asset and a lease liability on the consolidated statement of financial position. The right-of-use asset is measured at cost, which is made up of the initial measurement of the lease liability, any initial direct costs incurred by the Group, an estimate of any costs to dismantle and remove the underlying asset at the end of the lease, and any lease payments made in advance of the lease commencement date (net of any lease incentives received).

The Group depreciates the right-of-use assets on a straight-line basis from the lease commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term unless the Group is reasonably certain to obtain ownership at the end of the lease term. The Group also assesses the right-of-use assets for impairment when such indicator exists.

At the commencement date, the Group measures the lease liability at the present value of the lease payments unpaid at that date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Group's incremental borrowing rate.

Lease payments included in the measurement of the lease liability are made up of fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable payments based on an index or rate, and amounts expected to be payable under a residual value guarantee. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payment of penalties for terminating a lease, if the lease term reflects the Group exercising the option to terminate.

Subsequent to initial measurement, the liability will be reduced for lease payments made and increased for interest cost on the lease liability. It is remeasured to reflect any reassessment or lease modification, or if there are changes in in-substance fixed payments.

The Group remeasures lease liabilities whenever:

– there are changes in lease term or in the assessment of exercise of a purchase option, in which case the related lease liability is remeasured by discounting the revised lease payments using a revised discount rate at the date of reassessment.

– the lease payments changes due to changes in market rental rates following a market rent review, in which cases the related lease liability is remeasured by discounting the revised lease payments using the initial discount rate.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 31 December 2020*

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

### 3.18 Leases – continued

***Definition of a lease and the Group as a lessee – continued***

*Measurement and recognition of leases as a lessee – continued*

For lease modification that is not accounted for as a separate lease, the Group remeasures the lease liability based on the lease term of the modified lease by discounting the revised lease payments using a revised discount rate at the effective date of modification. The only exception is any rent concessions which arose as a direct consequence of the COVID-19 pandemic and which satisfied the conditions set out in paragraph 46B of HKFRS 16 "Leases". In such cases, the Group took advantage of the practical expedient set out in paragraph 46A of HKFRS 16 and recognised the change in consideration as if it were not a lease modification.

When the lease is remeasured, the corresponding adjustment is reflected in the right-of-use asset, or profit and loss if the right-of-use asset is already reduced to zero.

The Group has elected to account for short-term leases using the practical expedients. Instead of recognising a right-of-use asset and lease liability, the payments in relation to these leases are recognised as an expense in profit or loss on a straight-line basis over the lease term. Short-term leases are leases with a lease term of 12 month or less.

On the consolidated statement of financial position, right-of-use assets are presented separately under non-current assets. The prepaid lease payments for leasehold land are presented as "Land use rights" under non-current assets.

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

### 3.19 Foreign currencies

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

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

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 31 December 2020*

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

### 3.19 Foreign currencies – continued

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

### 3.20 Financial instruments

***(i) Recognition and derecognition***

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

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

***(ii) Classification and initial measurement of financial assets***

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

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

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

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 31 December 2020*

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

### 3.20 Financial instruments – continued

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

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

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

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

Other receivables, convertible bonds receivable, amount due from a director, amounts due from fellow subsidiaries, amounts due from a non-controlling shareholder of subsidiaries and bank balances and cash of the Group are stated at amortised cost.

All income and expenses relating to financial assets that are recognised in profit or loss are presented within finance costs and other income, except for expected credit losses ("ECL") of financial assets which is presented as a separate item in profit or loss.

The Group currently classifies its convertible promissory note and unlisted equity investment as financial assets at FVTPL based on the business model and contractual cash flows characteristics.

#### *(iii) Subsequent measurement of financial assets*

*Financial assets at amortised cost*

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

*Financial assets at FVTPL*

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 31 December 2020*

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

### 3.20 Financial instruments – continued

#### *(iii) Subsequent measurement of financial assets – continued*

*Equity investments*

An investment in equity securities is classified as FVTPL. 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 the "Other income, gains and losses" in profit or loss.

#### *(iv) Impairment of financial assets*

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

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

ECL is measured on either of the following bases:

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

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

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

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

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

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

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

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 31 December 2020*

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

### 3.20 Financial instruments – continued

#### *(iv) Impairment of financial assets – continued*

*Trade receivables*

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

*Other financial assets measured at amortised cost*

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

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

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

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

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 30 days past due, unless the Group has reasonable and supportable information that demonstrates otherwise.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 31 December 2020*

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

### 3.20 Financial instruments – continued

#### *(iv) Impairment of financial assets – continued*

*Other financial assets measured at amortised cost – continued*

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

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

Detailed analysis of the ECL assessment of trade receivables and other financial assets measured at amortised cost are set out in note 35.2.

The Group's financial liabilities include trade and other payables, lease liabilities, amount due to a related party, amounts due to fellow subsidiaries and amount due to a non-controlling shareholder of a subsidiary.

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

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

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

Accounting policies of lease liabilities are set out in note 3.18.

*Trade and other payables, amount due to a related party, amounts due to fellow subsidiaries and amount due to a non-controlling shareholder of a subsidiary*

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 31 December 2020*

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

### 3.21 Share capital

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

### 3.22 Related parties

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

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

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

  (ii) has significant influence over the Group; or

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

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

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

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

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

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

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

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

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

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

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 31 December 2020*

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

### 3.23 Segment reporting

The Group identifies operating segments and prepares segment information based on regular internal financial information reported to the chief operating decision maker ("CODM"), being directors of the Company.

The Group has identified the following reportable segments:

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

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

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

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

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

### 3.24 Government grants

Grants from the government are recognised at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions. Government grants are deferred and recognised in profit or loss over the period necessary to match them with the costs that the grants are intended to compensate.

Government grants relating to income is presented in gross under "Other income, gains and losses" in the consolidated statement of profit or loss and other comprehensive income.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 31 December 2020*

## 4. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

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

### Key sources of estimation uncertainty

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

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

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

At 31 December 2020, financial instruments that are not traded in an active market including convertible promissory note and unlisted equity investment are carried at fair value of HK$33,005,000 (2019: HK$28,086,000) and HK$269,206,000 (2019: HK$229,879,000) respectively. The fair values are determined by using valuation techniques, details of which are set out in notes 18 and 19. This involves developing estimates and assumptions in consistent with how market participants would price the instrument. The Group bases its assumptions on observable data as far as possible but this is not always available. In that case, the Group uses the best information available. Estimated fair values may vary from the actual prices that would be achieved in an arm's length transaction at the reporting date.

***Estimated impairment of trade receivables and other financial assets***

The Group makes allowances on items subjects to ECL (including trade and other receivables, convertible bonds receivable, amount due from a director, and amounts due from a non-controlling shareholder of subsidiaries) based on assumptions about risk of default and expected loss rates. The Group uses judgment in making these assumptions and selecting the inputs to the impairment calculation, based on the Group's past history, existing market conditions as well as forward-looking estimates at the end of each reporting period as set out in note 3.20. As at 31 December 2020, the aggregate carrying amounts of trade and other receivables, convertible bonds receivable, amount due from a director, amounts due from fellow subsidiaries and amounts due from a non-controlling shareholder of subsidiaries amounted to HK$88,279,000 (net of ECL allowance of HK$1,013,000), HK$18,842,000 (net of ECL allowance of HK$30,838,000), HK$21,093,000 (net of ECL allowance of HK$2,371,000), HK$207,000 (net of ECL allowance of HK$Nil) and HK$477,000 (net of ECL allowance of HK$Nil) (2019: the aggregate carrying amounts of trade and other receivables, amount due from a director and amount due from a non-controlling shareholder of a subsidiary amounted to HK$68,102,000 (net of ECL allowance of HK$730,000), HK$24,519,000 (net of ECL allowance of HK$Nil) and HK$22,000 (net of ECL allowance of HK$Nil)), respectively.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 31 December 2020*

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

### Key sources of estimation uncertainty – continued

***Income tax***

At 31 December 2020, no deferred tax asset has been recognised in relation to unused tax losses of approximately HK$97,238,000 (2019: HK$70,819,000) due to the unpredictability of future profit streams (note 29). The realisability of the deferred tax asset mainly depends on whether sufficient assessable profits or taxable temporary differences will be available in the future. In case where the actual future assessable profits generated are more than expected, recognition of a deferred tax asset may arise, which would be recognised in profit or loss for the period in which such recognition takes place.

## 5. REVENUE AND SEGMENT INFORMATION

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

The Group's operating activities are attributable to two operating segments focusing on the operation of manufacturing of and trading in dental prosthetics and the health care business.

### 5.1 Segment revenue and results

**For the year ended 31 December 2020**

| | Dental prosthetics business HK$'000 | Health care business HK$'000 | Total HK$'000 |
|---|---|---|---|
| **REVENUE** | | | |
| Revenue from external customers | 179,941 | 3,869 | 183,810 |
| **RESULTS** | | | |
| Segment profit/(loss) before depreciation and amortisation | 35,691 | (629) | 35,062 |
| Depreciation | | | |
| – Property, plant and equipment | (11,165) | (1,741) | (12,906) |
| – Right-of-use assets | (3,343) | (2,755) | (6,098) |
| Amortisation of land use rights | – | (840) | (840) |
| Amortisation of intangible assets | (342) | (130) | (472) |
| Segment operating profit/(loss) | 20,841 | (6,095) | 14,746 |
| Impairment loss on trade receivables | (286) | – | (286) |
| Impairment loss on amount due from a director | (2,371) | – | (2,371) |
| Segment profit/(loss) before income tax | 18,184 | (6,095) | 12,089 |
| Gain from change in fair value of convertible promissory note | | | 5,044 |
| Loss from change in fair value of convertible bonds receivable | | | (524) |
| Impairment loss on convertible bonds receivable | | | (30,838) |
| Unallocated income | | | 1,308 |
| Unallocated expenses | | | (28,552) |
| **Loss before income tax** | | | (41,473) |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 31 December 2020*

## 5. REVENUE AND SEGMENT INFORMATION – continued

### 5.1 Segment revenue and results – continued

For the year ended 31 December 2019

| | Dental prosthetics business HK$'000 | Health care business HK$'000 | Total HK$'000 |
|---|---|---|---|
| REVENUE | | | |
| Revenue from external customers | 251,243 | 375 | 251,618 |
| RESULTS | | | |
| Segment profit/(loss) before depreciation and amortisation | 29,101 | (3,220) | 25,881 |
| Depreciation | | | |
| – Property, plant and equipment | (10,517) | (699) | (11,216) |
| – Right-of-use assets | – | (2,095) | (2,095) |
| Amortisation of intangible assets | (950) | – | (950) |
| Segment operating profit/(loss) | 17,634 | (6,014) | 11,620 |
| Impairment loss on intangible assets | (27,068) | – | (27,068) |
| Impairment loss on goodwill | (330,805) | – | (330,805) |
| Impairment loss on trade receivables | (156) | – | (156) |
| Segment loss before income tax | (340,395) | (6,014) | (346,409) |
| Loss from change in fair value of financial assets at fair value through profit or loss – unlisted managed fund | | | (2,441) |
| Loss from change in fair value of convertible promissory note | | | (1,181) |
| Loss from change in fair value of convertible bonds receivable | | | (116) |
| Unallocated income | | | 8,255 |
| Unallocated expenses | | | (20,779) |
| Loss before income tax | | | (362,671) |

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 31 December 2020*

## 5. REVENUE AND SEGMENT INFORMATION – continued

### 5.2 Segment assets and liabilities

**As at 31 December 2020**

| | Dental prosthetics business HK$'000 | Health care business HK$'000 | Total HK$'000 |
|---|---|---|---|
| Reportable segment assets | 295,757 | 389,729 | 685,486 |
| Convertible promissory note | | | 33,005 |
| Convertible bonds receivable | | | 18,842 |
| Deferred tax assets | | | 593 |
| Taxation recoverable | | | 2,624 |
| Unallocated assets | | | 16,989 |
| Total assets | | | 757,539 |
| Reportable segment liabilities | (77,575) | (26,298) | (103,873) |
| Unallocated liabilities | | | (6,165) |
| Total liabilities | | | (110,038) |

As at 31 December 2019

| | Dental prosthetics business HK$'000 | Health care business HK$'000 | Total HK$'000 |
|---|---|---|---|
| Reportable segment assets | 238,858 | 347,297 | 586,155 |
| Convertible promissory note | | | 28,086 |
| Convertible bonds receivable | | | 46,323 |
| Financial assets at fair value through profit or loss – unlisted managed fund (note 19(b)) | | | 28,143 |
| Taxation recoverable | | | 2,440 |
| Unallocated assets | | | 23,710 |
| Total assets | | | 714,857 |
| Reportable segment liabilities | (55,934) | (12,098) | (68,032) |
| Unallocated liabilities | | | (5,164) |
| Total liabilities | | | (73,196) |

During the year ended 31 December 2020, capital expenditure incurred by the dental prosthetic business segment and health care business segment amounted to approximately HK$43,161,000 (2019: approximately HK$9,286,000) and approximately HK$49,446,000 (2019: approximately HK$12,733,000), respectively.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 31 December 2020*

## 5. REVENUE AND SEGMENT INFORMATION – continued

### 5.3 Geographical information

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

| | Revenue from external customers | | Non-current assets | |
|---|---|---|---|---|
| | **2020** | 2019 | **2020** | 2019 |
| | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 |
| Hong Kong | **33,103** | 87,222 | **–** | 204 |
| PRC (excluding Hong Kong) | **150,082** | 163,067 | **101,721** | 43,596 |
| Others | **625** | 1,329 | **20,544** | 474 |
| | **183,810** | 251,618 | **122,265** | 44,274 |

Note: Non-current assets include property, plant and equipment, right-of-use assets, land use rights, intangible assets and deposits.

### 5.4 Information about major customers

Revenue from customers of the corresponding years contributing over 10% of the Group's total revenue are as follows:

| | **2020** | 2019 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Customer A | **N/A*** | 25,000 |
| Customer B | **N/A*** | 24,657 |

* Less than 10% of the Group's total revenue

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 31 December 2020*

## 6. OTHER INCOME, GAINS AND LOSSES

| | 2020<br>HK$'000 | 2019<br>HK$'000 |
|---|---|---|
| Interest income on bank deposits | 168 | 2,195 |
| Interest income on convertible bonds receivable | – | 6,470 |
| Interest income on convertible promissory note | 479 | 421 |
| Interest income on loan to a shareholder | – | 163 |
| Dividend income on unlisted managed fund | 607 | 1,420 |
| Gain on short-term investments | 454 | 90 |
| (Loss)/Gain on disposal of financial asset at fair value through profit or loss | (1,463) | 875 |
| Loss on disposal of property, plant and equipment | (968) | (1,447) |
| Government subsidies (note i) | 4,402 | 8,105 |
| COVID-19-related rent concessions received (note ii) | 153 | – |
| Consultancy income | 513 | 1,505 |
| Net exchange gain/(loss) | 3,469 | (1,465) |
| Others | 26 | – |
| | 7,840 | 18,332 |

Notes:

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

In addition, during the year ended 31 December 2020, the Group received funding support amounting to HK$162,000 from the Employment Support Scheme under the Anti-epidemic Fund, set up by the Hong Kong Government. The purpose of the funding is to provide financial support to enterprises to retain their employees who would otherwise be made redundant. Under the terms of the grant, the Group is required not to make redundancies during the subsidy period and to spend all the funding on paying wages to the employees.

(ii) As disclosed in note 2, the Group has early adopted Amendments to HKFRS 16 “Covid-19-Related Rent Concessions” and applies the practical expedients introduced by the amendments to all eligible rent concessions received by the Group during the year. During the year ended 31 December 2020, the rent concessions received by the Group are in the form of a discount on fixed payments during the period of severe social distancing and travel restriction measures introduced to prevent the spread of COVID-19.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 31 December 2020*

## 7. LOSS BEFORE INCOME TAX

| | 2020<br>HK$'000 | 2019<br>HK$'000 |
|---|---|---|
| Loss before income tax has been arrived at after (crediting)/charging: | | |
| Directors' remuneration (note 8) | | |
| – fees | **1,612** | 1,967 |
| – other emoluments | **20,384** | 8,476 |
| – equity-settled share-based payment expenses | **3,093** | 1,565 |
| – contributions to defined contribution retirement schemes | **65** | 55 |
| | **25,154** | 12,063 |
| Other staff costs | | |
| – staff salaries and allowances | **97,785** | 127,522 |
| – equity-settled share-based payment expenses | **1,050** | 2,257 |
| – contributions to defined contribution retirement schemes (note) | **2,077** | 5,432 |
| | **100,912** | 135,211 |
| Total staff costs | **126,066** | 147,274 |
| Auditor's remuneration | | |
| – Current year | **1,100** | 1,100 |
| Amortisation of intangible assets (included in cost of sales) | **472** | 950 |
| Amortisation of land use rights | **840** | – |
| Cost of inventories recognised as expense | **91,001** | 128,728 |
| Depreciation: | | |
| – Property, plant and equipment | **12,906** | 11,216 |
| – Right-of-use assets | **6,302** | 2,585 |
| Impairment loss on trade receivables | **286** | 156 |
| Impairment loss on amount due from a director | **2,371** | – |
| Impairment loss on convertible bonds receivable | **30,838** | – |
| Impairment loss on intangible assets | **–** | 27,068 |
| Impairment loss on goodwill | **–** | 330,805 |
| Lease charges: | | |
| – Short-term leases with lease term less than 12 months | **2,398** | 7,483 |
| – COVID-19-related rent concessions received (note 6(ii)) | **(153)** | – |
| Net exchange (gain)/loss (included in other income, gains and losses) | **(3,469)** | 1,465 |
| Research and development expenses (included in other expenses) | **20,446** | 32,609 |
| Finance charges on lease liabilities | **935** | 357 |
| Loss/(Gain) on disposal of financial assets at fair value through profit or loss (included in other income, gains or losses) | **1,463** | (875) |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 31 December 2020*

## 7. LOSS BEFORE INCOME TAX – continued

Note:

Due to the impact of COVID-19, a number of policies including the relief of social insurance have been promulgated by the government since February 2020 to expedite resumption of economic activities, which resulted in the relief of certain contributions to defined contribution scheme during the year ended 31 December 2020.

## 8. DIRECTORS' AND CHIEF EXECUTIVE'S EMOLUMENTS

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

| | Fees HK$'000 | Basic salaries and allowances HK$'000 | Performance related incentive bonus HK$'000 | Equity-settled share-based payment expenses HK$'000 | Retirement benefits scheme contributions HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|---|
| **2020** | | | | | | |
| *Executive directors* | | | | | | |
| Mr. Zhang Huagang (note a) | – | 2,909 | – | 1,058 | 13 | 3,980 |
| Mr. Luo Jun *(chief executive)* | 600 | 3,038 | 1,200 | 846 | 26 | 5,710 |
| Mr. Wu Tianyu | – | 8,137 | 5,100 | 808 | 26 | 14,071 |
| Mr. Kwok Ying Sing | 100 | – | – | – | – | 100 |
| Mr. Xu Hao (note b) | 100 | – | – | – | – | 100 |
| *Independent non-executive directors* | | | | | | |
| Dr. Liu Yanwen | 250 | – | – | 127 | – | 377 |
| Dr. Lyu Aiping | 250 | – | – | 127 | – | 377 |
| Mr. Fok Hei Yu (note c) | 250 | – | – | 127 | – | 377 |
| Mr. Lau Shui Fung (note d) | 62 | – | – | – | – | 62 |
| | 1,612 | 14,084 | 6,300 | 3,093 | 65 | 25,154 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 31 December 2020*

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

| | Fees HK$'000 | Basic salaries and allowances HK$'000 | Performance related incentive bonus HK$'000 | Equity-settled share-based payment expenses HK$'000 | Retirement benefits scheme contributions HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|---|
| 2019 | | | | | | |
| *Executive directors* | | | | | | |
| Mr. Luo Jun *(chief executive)* | 600 | 1,390 | 902 | – | 34 | 2,926 |
| Mr. Wu Tianyu | – | 5,184 | 1,000 | 1,565 | 21 | 7,770 |
| Mr. Kwok Ying Sing (note e) | 84 | – | – | – | – | 84 |
| Mr. Xu Hao | 400 | – | – | – | – | 400 |
| *Independent non-executive directors* | | | | | | |
| Dr. Liu Yanwen | 221 | – | – | – | – | 221 |
| Dr. Lyu Aiping | 221 | – | – | – | – | 221 |
| Mr. Fok Hei Yu | 221 | – | – | – | – | 221 |
| Mr. Lau Shui Fung | 103 | – | – | – | – | 103 |
| Mr. Wang Wansong (note f) | 117 | – | – | – | – | 117 |
| | 1,967 | 6,574 | 1,902 | 1,565 | 55 | 12,063 |

Notes:

(a) Appointed as an executive director with effect from 9 April 2020.

(b) Re-designated from a non-executive director to an executive director with effect from 28 February 2019 and resigned on 1 April 2020.

(c) Resigned on 4 March 2021.

(d) Appointed as an independent non-executive director with effect from 2 August 2019 and resigned on 1 April 2020.

(e) Appointed as an executive director with effect from 26 February 2019.

(f) Resigned on 2 August 2019.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 31 December 2020*

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

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

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

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

During the year, certain directors were granted share options, in respect of their services to the Group under the share option scheme of the Company. Details of the share option scheme are set out in note 31 to the Group's consolidated financial statements.

## 9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid individuals of the Group during the year included three (2019: two) directors, details of whose remunerations are set out in note 8. The details of the remaining two (2019: three) highest paid employees who are not a director or chief executive of the Company are as follows:

| | **2020**<br>**HK$'000** | 2019<br>HK$'000 |
|---|---|---|
| Staff salaries and allowances | **11,855** | 6,061 |
| Equity-settled share-based payment expenses | **597** | 1,565 |
| Contributions to defined contribution retirement schemes | **112** | 140 |
| | **12,564** | 7,766 |

The emoluments were within the following bands:

| | **2020**<br>**HK$'000** | 2019<br>HK$'000 |
|---|---|---|
| HK$1,000,001 to HK$2,000,000 | **–** | 2 |
| HK$2,000,001 to HK$3,000,000 | **1** | – |
| HK$5,000,001 to HK$6,000,000 | **–** | 1 |
| HK$10,000,001 to HK$11,000,000 | **1** | – |
| | **2** | 3 |

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 31 December 2020*

## 10. INCOME TAX CREDIT

| | 2020<br>HK$'000 | 2019<br>HK$'000 |
|---|---|---|
| Current tax: | | |
| Hong Kong Profits Tax | – | 616 |
| Under/(Over)-provision in prior years: | | |
| Hong Kong Profits Tax | (185) | (20) |
| PRC Enterprise Income Tax | – | (1,281) |
| | (185) | (1,301) |
| Deferred tax credit (note 29) | (593) | (6,940) |
| | (778) | (7,625) |

No Hong Kong Profits Tax has been provided as the Group did not have any assessable profits during the year ended 31 December 2020.

The provision for Hong Kong Profits Tax for 2019 is calculated at 16.5% of the estimated assessable profits for the year, except for one subsidiary of the Group which is a qualifying corporation under the two-tiered profits tax rates regime. Under the two-tiered profits tax rates regime, the first HK$2 million of profit of qualifying entities are taxed at 8.25%, and the profits above HK$2 million are taxed at 16.5%.

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

Under the Law of the PRC on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiaries is 25%. A subsidiary of the Group was accredited as a "High and New Technology Enterprise" in the PRC with effect from 9 November 2018, and was registered with the local tax authority to be eligible to a concessionary tax rate of 15% for three years from 2018 to 2020.

According to a policy promulgated by the State Tax Bureau of the PRC, effective from 2019 onwards, enterprises engage in research and development activities are entitled to claim 175% of the research and development expenses incurred in a year as tax deductible expenses in determining taxable profits for that year ("Super Deduction"). A subsidiary is eligible to such Super Deduction in ascertaining its tax assessable profit for the years ended 31 December 2020 and 2019.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 31 December 2020*

## 10. INCOME TAX CREDIT – continued

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

| | 2020<br>HK$'000 | 2019<br>HK$'000 |
|---|---|---|
| Loss before income tax | (41,473) | (362,671) |
| Tax charge at applicable tax rate at 25% | (10,368) | (90,668) |
| Effect of different tax rates of subsidiaries operating in Hong Kong | – | (402) |
| Tax effect of income not taxable for tax purpose | (8,740) | (7,299) |
| Tax effect of expenses not deductible for tax purpose | 15,866 | 92,050 |
| Tax effect of Super Deduction on research and development expenses | (3,834) | (6,114) |
| Tax effect on concessionary tax rate | – | (165) |
| Tax effect of temporary difference not recognised | (123) | (6) |
| Tax effect of tax losses not recognised | 8,452 | 6,430 |
| Utilisation of tax losses previously not recognised | (1,846) | (150) |
| Over-provision in prior years | (185) | (1,301) |
| Tax credit for the year | (778) | (7,625) |

## 11. DIVIDENDS

No dividends were paid, declared or proposed for the years ended 31 December 2020 and 2019, nor has any dividend been proposed since the end of the reporting periods.

## 12. LOSS PER SHARE

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

| | 2020<br>HK$'000 | 2019<br>HK$'000 |
|---|---|---|
| Loss for the year attributable to owners of the Company | (39,692) | (354,673) |

**Number of shares**

| | 2020 | 2019 |
|---|---|---|
| Weighted average number of ordinary shares in issue during the year | 5,042,139,374 | 5,042,139,374 |

The diluted loss per share for the years ended 31 December 2020 and 2019 does not assume the exercise of the Company's share options because the exercise price of those share options was higher than the average market price for shares. Therefore, the diluted loss per share is the same as basic loss per share for the years ended 31 December 2020 and 2019.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 31 December 2020*

## 13. PROPERTY, PLANT AND EQUIPMENT AND RIGHT-OF-USE ASSETS

| | Moulds, plant and machinery | Furniture, fixtures and equipment | Leasehold improvements | Motor vehicles | Sub-total | Right-of-use assets (note) | Total |
|---|---|---|---|---|---|---|---|
| | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| **Cost** | | | | | | | |
| At 1 January 2019 | 32,365 | 9,240 | 3,716 | 1,032 | 46,353 | 3,924 | 50,277 |
| Currency realignment | (572) | (254) | (93) | (10) | (929) | (145) | (1,074) |
| Additions | 5,057 | 7,347 | 1,883 | 680 | 14,967 | 6,166 | 21,133 |
| Disposals/write-off | (4,733) | (757) | – | – | (5,490) | – | (5,490) |
| At 31 December 2019 and 1 January 2020 | 32,117 | 15,576 | 5,506 | 1,702 | 54,901 | 9,945 | 64,846 |
| Currency realignment | 2,117 | 1,034 | 532 | 45 | 3,728 | 1,838 | 5,566 |
| Additions | 2,604 | 1,400 | 2,912 | 735 | 7,651 | 4,595 | 12,246 |
| Modification | – | – | – | – | – | 3,451 | 3,451 |
| Lease reassessment | – | – | – | – | – | 12,437 | 12,437 |
| Disposals/write-off | (2,954) | (758) | – | – | (3,712) | – | (3,712) |
| **At 31 December 2020** | **33,884** | **17,252** | **8,950** | **2,482** | **62,568** | **32,266** | **94,834** |
| **Depreciation/Impairment** | | | | | | | |
| At 1 January 2019 | 7,624 | 2,588 | 612 | 363 | 11,187 | – | 11,187 |
| Currency realignment | (177) | (81) | (32) | (3) | (293) | (29) | (322) |
| Provided for the year | 6,561 | 2,882 | 1,539 | 234 | 11,216 | 2,585 | 13,801 |
| Disposals/write-off | (3,054) | (420) | – | – | (3,474) | – | (3,474) |
| At 31 December 2019 and 1 January 2020 | 10,954 | 4,969 | 2,119 | 594 | 18,636 | 2,556 | 21,192 |
| Currency realignment | 996 | 508 | 279 | 23 | 1,806 | 502 | 2,308 |
| Provided for the year | 6,316 | 3,884 | 2,380 | 326 | 12,906 | 6,302 | 19,208 |
| Disposals/write-off | (1,835) | (654) | – | – | (2,489) | – | (2,489) |
| **At 31 December 2020** | **16,431** | **8,707** | **4,778** | **943** | **30,859** | **9,360** | **40,219** |
| **Carrying values** | | | | | | | |
| **At 31 December 2020** | **17,453** | **8,545** | **4,172** | **1,539** | **31,709** | **22,906** | **54,615** |
| At 31 December 2019 | 21,163 | 10,607 | 3,387 | 1,108 | 36,265 | 7,389 | 43,654 |

Note: The right-of-use assets include nil (2019: one) leased office premises in Hong Kong and twenty-one (2019: two) leased office premises in the PRC, associated with lease agreements with lease terms ranging from one to six years (2019: three to six years). Eighteen (2019: one) of the lease agreements of leased office premises in the PRC offers an option to renew the lease and renegotiate the terms at the expiry date or at date as mutually agreed between the Group and the landlord/lessor.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 31 December 2020*

## 14. LAND USE RIGHTS

On 9 April 2020, the Group entered into a cooperation agreement ("Zhuhai Shili Lianjiang Cooperation Agreement") with Zhuhai Shili Lianjiang Agricultural Tourism Development Co., Ltd.* (珠海十里蓮江農業旅遊開發有限公司) ("Zhuhai Shili Lianjiang Development") to invest in a subsidiary, Zhuhai Shili Lianjiang Health Care Development Co., Ltd.* (珠海十里蓮江健康產業發展有限公司) ("Zhuhai Shili Lianjiang Health Care"), which is held as to 55% indirectly by the Company and as to 45% by Zhuhai Shili Lianjiang Development, to develop and operate an international healthcare project located at Shili Lianjiang, Zhuhai, PRC, as an one-stop international healthcare project integrating healthcare, modern planting, rural visit, cultural creativity, science education and rural leisure as a whole (the "Zhuhai Shili Lianjiang Project").

Further details of the Zhuhai Shili Lianjiang Cooperation Agreement are disclosed in the Company's announcement dated 22 April 2020.

The land use rights represent prepayments in relation to lease of land in the PRC. The land use rights fall into the scope of HKFRS 16 as it meets the definition of right-of-use assets. Details of movement is set out below:

| | **2020**<br>**HK$'000** | 2019<br>HK$'000 |
|---|---|---|
| At 1 January | **–** | – |
| Addition (note) | **43,614** | – |
| Amortisation | **(840)** | – |
| Currency realignment | **3,809** | – |
| **At 31 December** | **46,583** | – |

Note: The land use rights are situated in the PRC and held under lease of 40 years. Zhuhai Shili Lianjiang Development has injected land use rights cost of RMB19,915,000 (equivalent to approximately HK$21,807,000) to Zhuhai Shili Lianjiang Health Care as part of its contribution to the capital of RMB10,000,000 (equivalent to approximately HK$10,962,000) and advance to Zhuhai Shili Lianjiang Health Care of RMB9,915,000 (equivalent to approximately HK$10,845,000) (note 25(b)). The remaining balance of RMB19,915,000 (equivalent to approximately HK$21,807,000) was paid by a subsidiary and fully settled during the year ended 31 December 2020.

* *For identification purpose only*

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 31 December 2020*

## 15. INTANGIBLE ASSETS

| | Trademarks and patent HK$'000 | Computer softwares HK$'000 | Total HK$'000 |
|---|---|---|---|
| **Cost** | | | |
| At 1 January 2019 | 32,149 | – | 32,149 |
| Currency realignment | – | (12) | (12) |
| Additions | – | 886 | 886 |
| At 31 December 2019 and 1 January 2020 | 32,149 | 874 | 33,023 |
| Currency realignment | – | 105 | 105 |
| Additions | – | 779 | 779 |
| **At 31 December 2020** | **32,149** | **1,758** | **33,907** |
| **Amortisation and impairment** | | | |
| At 1 January 2019 | 4,389 | – | 4,389 |
| Currency realignment | (1) | (3) | (4) |
| Provided for the year | 693 | 257 | 950 |
| Impairment loss | 27,068 | – | 27,068 |
| At 31 December 2019 and 1 January 2020 | 32,149 | 254 | 32,403 |
| Currency realignment | – | 45 | 45 |
| Provided for the year | – | 472 | 472 |
| **At 31 December 2020** | **32,149** | **771** | **32,920** |
| **Carrying values** | | | |
| **At 31 December 2020** | **–** | **987** | **987** |
| At 31 December 2019 | – | 620 | 620 |

The amortisation charge for the year is included in "Cost of sales" in the consolidated statement of profit or loss and other comprehensive income.

For the purpose of impairment assessment, the intangible assets in respect of patent and trademarks have been allocated to CGU of dental prosthetics business which was acquired during the year ended 31 December 2015. As at 31 December 2019, the directors conducted a review of the recoverable amount of the CGU containing the intangible assets, and determined that an impairment loss of HK$27,068,000 is recorded in profit or loss for the year ended 31 December 2019. Further details are set out in note 17.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 31 December 2020*

## 16. INVESTMENT IN AN ASSOCIATE

| | 2020<br>HK$'000 | 2019<br>HK$'000 |
|---|---|---|
| Cost of unlisted investment in an associate (note a) | – | – |
| Share of post-acquisition loss and other comprehensive expenses (note b) | – | – |
| | – | – |

Notes:

(a) During the year ended 31 December 2020, the Group has obtained significant influence of an associate, Hangzhou Jinyun Investment Management Co., Ltd.* (杭州金韵投資管理有限公司) ("Hangzhou Jinyun") because it has the power to appoint one out of the five directors of the associate. At the end of the reporting period, the Group has not paid up the cost of investment in the associate and committed to the capital contribution of the associate of RMB2 million (equivalent to approximately HK$2.2 million).

(b) The Group has not recognised losses amounting to approximately HK$464,000 for the year ended 31 December 2020 for Hangzhou Jinyun. The accumulated losses not recognised were approximately HK$464,000 as at 31 December 2020.

Details of the Group's associate as at 31 December 2020, which is an unlisted corporate entity whose quoted market price is not available.

| Name of associate | Form of entity | Country of incorporation and business | Particulars of registered capital | Proportion of interest held by the Group | | Principal activity |
|---|---|---|---|---|---|---|
| | | | | 2020 | 2019 | |
| Hangzhou Jinyun | Limited liability company | PRC | RMB10,000,000 | 20% | – | Management service |

* For identification purpose only

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 31 December 2020*

## 17. GOODWILL

| | HK$'000 |
|---|---|
| **Cost** | |
| At 1 January 2019, 31 December 2019, 1 January 2020 and 31 December 2020 | 330,805 |
| **Accumulated impairment** | |
| At 1 January 2019 | – |
| Provided for the year | 330,805 |
| At 31 December 2019 and 31 December 2020 | 330,805 |
| **Carrying values** | |
| **At 31 December 2020** | **–** |
| At 31 December 2019 | – |

For the purpose of impairment assessment, the entire goodwill has been allocated to the CGU of dental prosthetics business which was acquired during the year ended 31 December 2015. As at 31 December 2019, the directors conducted a review of the recoverable amount of the CGU containing the goodwill, and determined that an impairment loss of HK$330,805,000 is recorded in profit or loss for the year ended 31 December 2019.

The recoverable amount of the CGU has been determined VIU calculation. The calculation uses cash flows projections based on financial budgets approved by the management for the year ending 31 December 2020 and the following four years based on average growth rate of 6.7% per annum. Cash flows beyond the five-year period are extrapolated using 3% growth rate. A pre-tax discount rate of 19% is used for this CGU and derived using risk-free rate, the market return and CGU specific risk factors. The average gross margin and net margin of the CGU during forecast period are 48.9% and 4.6% respectively, as compared to 49.1% and 9.7% respectively for the year ended 31 December 2019.

The key assumptions included annual growth rates, estimated future selling prices and direct costs which are estimated based on past practices and expectations of future changes in the market. The assumption on average growth rate has significantly varied from the estimates used in prior year, as the directors expected the growth in dental prosthetics business to slow down in the coming years due to the deteriorating macro-environment, and the past performance of the CGU was unable to meet the projection estimated in prior year financial forecast. The directors performed an impairment assessment based on a valuation conducted by an independent qualified professional valuer, and determined that the recoverable amount of the CGU was approximately HK$139 million as at 31 December 2019.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 31 December 2020*

## 18. CONVERTIBLE PROMISSORY NOTE

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

As at 31 December 2020 and 2019, the convertible promissory note has been fair valued with reference to the valuation conducted by an independent qualified professional valuer.

Details of movement is set out below:

| | HK$'000 |
|---|---|
| At 1 January 2019 | 29,309 |
| Currency realignment | (42) |
| Change in fair value recognised in profit or loss | (1,181) |
| At 31 December 2019 and 1 January 2020 | 28,086 |
| Currency realignment | (125) |
| Change in fair value recognised in profit or loss | 5,044 |
| **At 31 December 2020** | **33,005** |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 31 December 2020*

## 19. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

| | **2020**<br>**HK$'000** | 2019<br>HK$'000 |
|---|---|---|
| Non-current: | | |
| Unlisted equity investment (note a) | **269,206** | 229,879 |
| Current: | | |
| Unlisted managed fund (note b) | **–** | 28,143 |

The fair value of the Group's unlisted equity investment and unlisted managed fund have been measured as described in note 35.3.

Notes:

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

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

The directors of the Company announced that the acquisition of Sale Share and Sale Loan of the Trade Guide Group were completed on 23 May 2019, further details are disclosed in the Company's announcement dated 24 May 2019.

Upon the completion of the acquisition of Sale Share and Sale Loan of the Trade Guide Group on 23 May 2019, the Group has contributed RMB191,412,000 (equivalents to HK$219,908,000) to Hangzhou Jiayue Investment Partnership* (杭州佳躍投資合夥企業(有限合夥)) ("Hangzhou Jiayue") and holds 9.6% effective interest in Hangzhou Jiayue, a limited partnership established in the PRC.

* *For identification purpose only*

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 31 December 2020*

## 19. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS – continued

Notes: – continued

(a) Hangzhou Jiayue directly holds 99.9% interest in Ningbo Meishan Bonded Zone Jieshuo Investment Partnership* (寧波梅山保稅港區傑鑠投資合夥企業(有限合夥)) ("Meishan Jieshuo"), which in turns holds 90% equity interest in Hangzhou Zhaojin Real Estate Co., Ltd.* (杭州兆金置業有限公司) ("Hangzhou Zhaojin"), which in turns owns Shulan Project.

As at 31 December 2020 and 2019, the unlisted equity investment has been fair valued with reference to the valuation conducted by an independent qualified professional valuer.

Details of movement of unlisted equity investment is set out below:

| | HK$'000 |
|---|---|
| At 1 January 2019 | – |
| At date of acquisition | 219,908 |
| Currency realignment | (6,230) |
| Change in fair value recognised in profit or loss | 16,201 |
| At 31 December 2019 and 1 January 2020 | 229,879 |
| Currency realignment | 16,657 |
| Change in fair value recognised in profit or loss | 22,670 |
| **At 31 December 2020** | **269,206** |

(b) The Group did not have significant influence or participation in the policy-making process and the operating and financial decisions of the unlisted managed fund. During the year ended 31 December 2020, the Group had disposed of the unlisted managed fund at a consideration amounting to HK$26,680,000 to Peng Ze (Hong Kong) Limited, a subsidiary of a non-controlling shareholder.

Details of movement of unlisted managed fund is set out below:

| | HK$'000 |
|---|---|
| At 1 January 2019 | – |
| At date of acquisition | 29,967 |
| Currency realignment | (258) |
| Gain on disposal recognised in profit or loss | 875 |
| Change in fair value recognised in profit or loss | (2,441) |
| At 31 December 2019 and 1 January 2020 | 28,143 |
| Disposal of unlisted managed fund | (28,143) |
| **At 31 December 2020** | **–** |

** For identification purpose only*

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 31 December 2020*

## 20. INVENTORIES

| | 2020 HK$'000 | 2019 HK$'000 |
|---|---|---|
| Raw materials | 6,691 | 6,829 |
| Finished goods | 38 | 21 |
| | 6,729 | 6,850 |

## 21. TRADE AND OTHER RECEIVABLES

| | 2020 HK$'000 | 2019 HK$'000 |
|---|---|---|
| Trade receivables | 89,292 | 65,083 |
| Less: ECL allowance | (1,013) | (730) |
| | 88,279 | 64,353 |
| Other receivables, prepayments and deposits | 8,530 | 9,792 |
| Deposits for acquisition of a subsidiary (note) | 20,080 | – |
| Prepayments for construction costs | 9,089 | – |
| | 37,699 | 9,792 |
| | 125,978 | 74,145 |

Note:

The amount represented deposits paid for an acquisition of entire equity interest in an entity (the "Target Company") (the "Acquisition") pursuant to a sale and purchase agreement entered into by a subsidiary of the Group and an independent third party (the "Seller"). The Target Company locates in the USA and holds regulatory approvals and intellectual property relating to, the manufacture, marketing, and distribution of dental implant systems and related dental products and technologies in the USA. The total consideration of the acquisition amounted to USD3,525,000 (equivalent to approximately HK$27,445,000), subject to adjustment of inventory amount and relevant expenses (the "Purchase Price Adjustment") and a deferred contingent consideration of up to USD1,000,000 (equivalent to approximately HK$7,753,000).

On 1 March 2021, the Acquisition was completed and the Group had paid a further consideration of USD950,000 (equivalent to approximately HK$7,365,000). Up to the date of this report, the Group and the Seller are still in the process of negotiating the Purchase Price Adjustment.

The directors of the Group consider that the fair values of trade and other receivables which are expected to be recorded within one year are not materially different from their carrying amounts because these balances have short maturity periods on their inception.

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

| | 2020 HK$'000 | 2019 HK$'000 |
|---|---|---|
| 0 – 90 days | 60,076 | 54,834 |
| 91 – 180 days | 19,572 | 5,529 |
| 181 – 365 days | 5,115 | 2,766 |
| Over 1 year | 3,516 | 1,224 |
| | 88,279 | 64,353 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 31 December 2020*

## 21. TRADE AND OTHER RECEIVABLES – continued

Payment terms with customers are mainly on credit. Invoices are normally payable within 30 to 90 days after issuance, except for certain well-established customers, where the terms are extended to 360 days.

The movement in the ECL allowance of trade receivables is as follows:

| | **2020** | 2019 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| At 1 January | **730** | 574 |
| Recognised during the year | **286** | 156 |
| Exchange realignment | **(3)** | – |
| At 31 December | **1,013** | 730 |

## 22. CONVERTIBLE BONDS RECEIVABLE

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

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

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

On 29 November 2019, the Group and Condor Tech entered into an amendment deed to amend and supplement the terms and conditions of the Convertible Bonds, pursuant to which the maturity date of the Convertible Bonds has been extended from 27 November 2019 to 27 November 2020 (the "Extended Maturity Date"). Details of the extension of the Convertible Bonds were set out in the Company's announcement dated 3 December 2019.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 31 December 2020*

## 22. CONVERTIBLE BONDS RECEIVABLE – continued

Upon the Extended Maturity Date, Condor Tech has not made any repayment for the redemption of the outstanding Convertible Bonds or the accrued and unpaid interest thereon. Pursuant to the terms of the Convertible Bonds, it constitutes an event of default if, among others, Condor Tech fails to pay any amount for the redemption of the outstanding Convertible Bonds or the accrued and unpaid interest thereon when due. In this regard, the Group has expressly renounced to exercise the conversion right applicable in relation to the Convertible Bonds and it has required the full reimbursement of the amounts due in respect of the Convertible Bonds. Accordingly, the Group has reclassified the convertible bonds receivable from financial assets at fair value through profit or loss to financial assets at amortised cost at the Extended Maturity Date.

As at the Extended Maturity Date, the outstanding Convertible Bonds and interests accrued and unpaid amounted to EUR5,000,000 (equivalent to approximately HK$46,250,000) and EUR250,000 (equivalent to approximately HK$2,313,000), respectively.

The Company is now seeking legal advice and assessing the Company's legal position as to the failure of Condor Tech in repaying the outstanding Convertible Bonds upon the Extended Maturity Date and the matters stated therein. The Company will use its best endeavor and will take all possible actions to seek recovery from Condor Tech of the principal amount and the interests accrued for the outstanding Convertible Bonds.

Further details in relation to the Convertible Bonds were set out in the Company's announcement dated 30 November 2020.

As at the Extended Maturity Date, the convertible bonds receivable has been fair valued with reference to the valuation conducted by an independent qualified professional valuer.

Details of movement is set out below:

| | HK$'000 |
|---|---|
| At 1 January 2019 | 47,649 |
| Currency realignment | (1,210) |
| Change in fair value recognised in profit or loss | (116) |
| At 31 December 2019 and 1 January 2020 | 46,323 |
| Currency realignment | 2,764 |
| Change in fair value recognised in profit or loss | (524) |
| At the Extended Maturity Date | 48,563 |
| Currency realignment | 1,117 |
| Less: ECL allowance | (30,838) |
| **At 31 December 2020** | **18,842** |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 31 December 2020*

## 22. CONVERTIBLE BONDS RECEIVABLE – continued

The movement in the ECL allowance of convertible bonds receivable is as follows:

| | **2020** |
|---|---|
| | **HK$'000** |
| At the Extended Maturity Date and date of reclassification | **–** |
| Recognised during the year | **30,838** |
| At 31 December | **30,838** |

As at 31 December 2020, the convertible bonds receivable has delayed its settlement for over 30 days. Having considered the economic environment in which the debtor operates (which is in Europe) and the liquidity condition of the debtor, the Group considered that there are objective evidence of impairment of the convertible bonds receivable since initial recognition and, therefore, a Stage 3 ECL allowance of HK$30,838,000 was recognised.

## 23. AMOUNT DUE FROM A DIRECTOR

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

The amount is due from a director, Mr. Wu Tianyu ("Mr. Wu", the executive director of the Company), and the maximum amount outstanding during the year ended 31 December 2020 is HK$28,696,000 (2019: HK$27,788,000).

During the year ended 31 December 2020, having considered the repayment from the director has been reducing in recent years, the Group considered that the credit quality have deteriorated significantly since initial recognition and the credit risk is not low, therefore, a Stage 2 ECL allowance of approximately HK$2,371,000 (2019: HK$Nil) was recognised.

## 24. AMOUNTS DUE FROM/TO A NON-CONTROLLING SHAREHOLDER OF SUBSIDIARIES/FELLOW SUBSIDIARIES

The amounts are unsecured, interest-free and repayable on demand.

## 25. BANK BALANCES AND CASH

### (a) Bank balances and cash comprise:

| | **2020** | 2019 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Bank balances and cash | **176,600** | 230,176 |

Bank balances carry interest at market rates which ranges from 0.001% to 0.39% (2019: 0.04% to 0.42%) per annum.

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

| | **2020** | 2019 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| United States dollar | **25,070** | 46,971 |
| Euro | **20,240** | 17,576 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 31 December 2020*

## 25. BANK BALANCES AND CASH – continued

### (b) Reconciliation of liabilities arising from financing activities

The table below shows details changes in the Group's liabilities from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are liabilities for which cash flows were, or future cash flows will be, classified in the Group's consolidated statement of cash flow as cash flows from financing activities.

| | Lease liabilities HK$'000 (note 27) | Amount due to a related party HK$'000 (note 28) | Amounts due to fellow subsidiaries HK$'000 | Amount due to a non-controlling shareholder of a subsidiary HK$'000 | Loan from ultimate holding company HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|---|
| At 1 January 2019 | 3,924 | 730 | – | – | – | 4,654 |
| **Cash-flows** | | | | | | |
| Capital element of lease rentals paid | (2,174) | – | – | – | – | (2,174) |
| Interest element of lease rentals paid | (357) | – | – | – | – | (357) |
| **Non-cash (note):** | | | | | | |
| Interest charges | 357 | – | – | – | – | 357 |
| Entering into new leases | 6,166 | – | – | – | – | 6,166 |
| Currency realignment | (122) | (14) | – | – | – | (136) |
| At 31 December 2019 and 1 January 2020 | 7,794 | 716 | – | – | – | 8,510 |
| **Cash-flows:** | | | | | | |
| Proceeds | – | – | 814 | 117 | 27,298 | 28,229 |
| Repayment | – | – | – | – | (27,298) | (27,298) |
| Capital element of lease rentals paid | (6,317) | – | – | – | – | (6,317) |
| Interest element of lease rentals paid | (935) | – | – | – | – | (935) |
| **Non-cash (note):** | | | | | | |
| COVID-19-related rent concessions received (note 6) | (153) | – | – | – | – | (153) |
| Interest charges | 935 | – | – | – | – | 935 |
| Entering into new leases | 4,595 | – | – | – | – | 4,595 |
| Modification | 3,451 | – | – | – | – | 3,451 |
| Lease reassessment | 12,437 | – | – | – | – | 12,437 |
| Land use rights (note 14) | – | – | – | 21,807 | – | 21,807 |
| Capital injection (note 14) | – | – | – | (10,962) | – | (10,962) |
| Currency realignment | 1,429 | 48 | 48 | 957 | – | 2,482 |
| **At 31 December 2020** | **23,236** | **764** | **862** | **11,919** | – | **36,781** |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 31 December 2020*

## 25. BANK BALANCES AND CASH – continued

### (b) Reconciliation of liabilities arising from financing activities – continued

Note:

The Group entered into the following non-cash investing and financing activities which are not reflected in the consolidated statement of cash flows:

During the year ended 31 December 2020, the Group entered into certain lease agreements in which additions to right-of-use assets and lease liabilities amounting to HK$4,595,000 (2019: HK$6,166,000) were recognised at the lease commencement date.

## 26. TRADE AND OTHER PAYABLES

| | 2020<br>HK$'000 | 2019<br>HK$'000 |
|---|---|---|
| Trade payables | 4,939 | 5,689 |
| Receipts in advance | 23,965 | 7,878 |
| Other payables (note (a)) | 19,560 | 15,966 |
| Accrued charges (note (a)) | 23,987 | 35,122 |
| Contract liabilities (note (b)) | 806 | 31 |
| | 73,257 | 64,686 |

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

| | 2020<br>HK$'000 | 2019<br>HK$'000 |
|---|---|---|
| 0 – 90 days | 4,734 | 5,241 |
| 91 – 180 days | 131 | 448 |
| Over 180 days | 74 | – |
| | 4,939 | 5,689 |

The average credit period on purchases of goods is 90 days (2019: 90 days).

All amounts are short-term and hence the carrying values of the Group's trade and other payables are considered to be a reasonable approximation of fair value.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 31 December 2020*

## 26. TRADE AND OTHER PAYABLES – continued

Notes:

(a) Other payables mainly include value added tax and other tax payables in the PRC, and accrued charges mainly include accrued staff salaries and allowances, and contributions to defined contribution retirement schemes.

(b) Contract liabilities represents deposits received from medical services under the health care business segment. When the Group receives a deposit before the commencement of medical services, this will give rise to a contract liability at the inception of a contract until the revenue recognised on the service could cover the amount of the deposit. The contract liabilities represent receipts in advance for the medical services and are expected to be recognised as revenue within one year.

## 27. LEASE LIABILITIES

The following table presents the remaining contractual maturities of the Group's lease liabilities as at the end of the reporting periods:

| | 2020 | | 2019 | |
|---|---|---|---|---|
| | Present value of minimum lease payments HK$'000 | Total minimum lease payments HK$'000 | Present value of minimum lease payments HK$'000 | Total minimum lease payments HK$'000 |
| **Current:** | | | | |
| Within 1 year | 6,025 | 7,048 | 2,484 | 2,816 |
| **Non-current:** | | | | |
| After 1 year but within 2 years | 4,991 | 5,727 | 1,279 | 1,508 |
| After 2 years but within 5 years | 12,220 | 13,071 | 3,368 | 3,741 |
| Over 5 years | – | – | 663 | 673 |
| | 17,211 | 18,798 | 5,310 | 5,922 |
| Less: future finance charges on lease liabilities | – | (2,610) | – | (944) |
| | 23,236 | 23,236 | 7,794 | 7,794 |

As at 31 December 2020, lease liabilities amounting to HK$23,236,000 (2019: HK$7,794,000) are effectively secured by the related underlying assets as the rights to the leased assets would be reverted to the lessor in the event of default by repayment by the Group.

During the year ended 31 December 2020, the total cash outflows for the leases are HK$9,650,000 (2019: HK$10,014,000), of which the cash outflows amounting to HK$372,000 (2019: HK$570,000) are made to the ultimate holding company, Kaisa Group Holdings Ltd., associated with a lease liability amounting to HK$Nil as at 31 December 2020 (2019: HK$209,000).

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 31 December 2020*

## 28. AMOUNT DUE TO A RELATED PARTY

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

The amount is due to a related party, Ms. Jiang Sisi ("Ms. Jiang", the spouse of Mr. Wu (defined in note 23), and the balance due as at 31 December 2020 is HK$764,000 (2019: HK$716,000).

## 29. DEFERRED TAX ASSETS/(LIABILITIES)

The deferred tax assets/(liabilities) recognised and movements during the current and prior reporting periods are as follows:

| | **Fair value adjustments on intangible assets acquired in business combinations** HK$'000 | **Others** HK$'000 | **Total** HK$'000 |
|---|---|---|---|
| At 1 January 2019 | (6,940) | – | (6,940) |
| Credit to profit or loss for the year | 6,940 | – | 6,940 |
| At 31 December 2019 and 1 January 2020 | – | – | – |
| Credit to profit or loss for the year | – | 593 | 593 |
| **At 31 December 2020** | **–** | **593** | **593** |

As at 31 December 2020, the Group has unused tax losses of HK$97,238,000 (2019: HK$70,819,000) available for offset against future profits. No deferred tax asset has been recognised in respect of such losses due to the unpredictability of future profit streams. Included in unrecognised tax losses are losses of HK$5,968,000 that will expire in 2024 (2019: HK$13,352,000 that will expire in 2023).

As at 31 December 2020, the Group has unremitted earnings for certain subsidiaries amounting to HK$200,264,000 (2019: HK$165,806,000). No deferred tax liability has been recognised in respect of these unremitted earnings because the Company controls the dividend policy of these subsidiaries, and it is not probable that the temporary differences will reverse in the foreseeable future.

## 30. SHARE CAPITAL

| | **Number of shares** | **Share capital** HK$'000 |
|---|---|---|
| **Ordinary shares of HK$0.00125 each:** | | |
| **Authorised:** | | |
| At 1 January 2019, 31 December 2019 and 31 December 2020 | 160,000,000,000 | 200,000 |
| **Issued and fully paid:** | | |
| At 1 January 2019, 31 December 2019 and 31 December 2020 | **5,042,139,374** | **6,303** |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 31 December 2020*

## 31. SHARE OPTIONS

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

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

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

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

At 31 December 2020, the number of shares in respect of which options had been granted and remained outstanding under the Scheme was 245,800,000 (2019: 259,140,000), representing 4.9% (2019: 5.1%) of the shares of the Company in issue at that date.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 31 December 2020*

## 31. SHARE OPTIONS – continued

During the year ended 31 December 2020, options were granted on 22 July 2020 and the estimated fair values of the options granted on that date were HK$12,121,000.

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

| | | | | |
|---|---|---|---|---|
| Grant date | 16 June 2015 | 24 July 2015 | 12 September 2016 | 22 July 2020 |
| Share price at grant date | HK$0.780 | HK$0.690 | HK$0.350 | HK$0.144 |
| Exercise price | HK$0.784 | HK$0.784 | HK$0.400 | HK$0.196 |
| Expected volatility | 73.49% | 80.31% | 76.75% | 63.68% |
| Expected life | 5 years | 5 years | 6 years | 10 years |
| Risk-free rate | 1.296% | 1.230% | 0.713% | 0.396% |
| Expected dividend yield | 5.17% | 4.62% | 0.00% | 0.00% |
| Early exercise multiples | | | | |
| – Director and its associate | N/A | 2.8x | 2.8x | 2.8x |
| – Employees or consultants | 2.2x | N/A | 2.2x | 2.8x |

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

Details of specific categories of options are as follows:

| **Option type** | **Date of grant** | **Vesting period** | **Exercisable period** | **Exercise price** |
|---|---|---|---|---|
| 2015A | 16.6.2015 | 16.6.2015 – 15.6.2019 | 16.6.2016 – 15.6.2020 | HK$0.784 |
| 2015B | 24.7.2015 (note i) | 16.6.2015 – 15.6.2019 | 16.6.2016 – 15.6.2020 | HK$0.784 |
| 2016 | 12.9.2016 | 12.9.2016 – 11.9.2021 | 12.9.2017 – 11.9.2022 | HK$0.400 |
| 2020 | 22.7.2020 (note ii) | 22.7.2020 – 21.7.2023 | 22.7.2020 – 21.7.2030 | HK$0.196 |

Notes:

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

(ii) Share options subject to approval of independent shareholders was proposed and granted by board of directors on 22 July 2020.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 31 December 2020*

## 31. SHARE OPTIONS – continued

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

| Type of participant | Option type | Outstanding at 1 January 2019 | Forfeited during the year | Outstanding at 31 December 2019 and 1 January 2020 | Forfeited/ Lapsed during the year | Granted during the year | Outstanding at 31 December 2020 |
|---|---|---|---|---|---|---|---|
| Mr. Wu | 2015B | 74,070,000 | – | 74,070,000 | (74,070,000) | – | **-** |
| Ms. Jiang | 2015B | 74,070,000 | – | 74,070,000 | (74,070,000) | – | **-** |
| Mr. Wu | 2016 | 38,000,000 | – | 38,000,000 | – | – | **38,000,000** |
| Ms. Jiang | 2016 | 38,000,000 | – | 38,000,000 | – | – | **38,000,000** |
| Ms. Wu Ansheng (note) | 2016 | 8,000,000 | – | 8,000,000 | – | – | **8,000,000** |
| Employees | 2015A | 3,800,000 | (800,000) | 3,000,000 | (3,000,000) | – | **-** |
| Employees | 2016 | 23,500,000 | (3,500,000) | 20,000,000 | (6,200,000) | – | **13,800,000** |
| Consultants | 2015A | 4,000,000 | – | 4,000,000 | (4,000,000) | – | **-** |
| Mr. Zhang | 2020 | – | – | – | – | 50,000,000 | **50,000,000** |
| Mr. Luo | 2020 | – | – | – | – | 40,000,000 | **40,000,000** |
| Mr. Wu | 2020 | – | – | – | – | 20,000,000 | **20,000,000** |
| Dr. Liu | 2020 | – | – | – | – | 6,000,000 | **6,000,000** |
| Mr. Fok | 2020 | – | – | – | – | 6,000,000 | **6,000,000** |
| Dr. Lyu | 2020 | – | – | – | – | 6,000,000 | **6,000,000** |
| Ms. Jiang | 2020 | – | – | – | – | 10,000,000 | **10,000,000** |
| Employee | 2020 | – | – | – | – | 10,000,000 | **10,000,000** |
| | | 263,440,000 | (4,300,000) | 259,140,000 | (161,340,000) | 148,000,000 | **245,800,000** |
| Exercisable at the end of the year | | 177,055,000 | | 234,640,000 | | | **88,020,000** |
| Weighted average exercise price | | HK$0.627 | HK$0.471 | HK$0.630 | HK$0.769 | HK$0.196 | **HK$0.277** |

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

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 31 December 2020*

## 31. SHARE OPTIONS – continued

The Group recognised a share-based payment expense in the consolidated statement of profit or loss and other comprehensive income as follows:

| | 2020<br>HK$'000 | 2019<br>HK$'000 |
|---|---|---|
| Directors | 3,093 | 1,565 |
| Employees and consultants | 1,050 | 2,257 |
| | 4,143 | 3,822 |

## 32. LEASE COMMITMENTS

At the end of the reporting period, the lease commitments for short-term leases are as follows:

| | 2020<br>HK$'000 | 2019<br>HK$'000 |
|---|---|---|
| Within one year | 261 | 992 |

As at 31 December 2020 and 2019, the Group leases a number of properties with a lease period of 12 months, which are qualified to be accounted for under short-term leases exemption under HKFRS 16.

## 33. CAPITAL COMMITMENTS

At the end of the reporting period, capital commitments outstanding but not provided for in the consolidated financial statements are as follows:

| | 2020<br>HK$'000 | 2019<br>HK$'000 |
|---|---|---|
| **Contracted for:** | | |
| Acquisition of an associate | 2,384 | 2,273 |
| Acquisition of a subsidiary | 7,365 | – |
| Construction of properties | 52,137 | – |

## 34. CAPITAL RISK MANAGEMENT

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

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

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 31 December 2020*

## 35. FINANCIAL INSTRUMENTS

### 35.1 Categories of financial instruments

| | 2020<br>HK$'000 | 2019<br>HK$'000 |
|---|---|---|
| **Financial assets** | | |
| Financial assets measured at amortised cost: | | |
| Trade and other receivables | 91,760 | 68,102 |
| Convertible bonds receivable | 18,842 | – |
| Amount due from a director | 21,093 | 24,519 |
| Amounts due to fellow subsidiaries | 207 | – |
| Amounts due from a non-controlling shareholder of subsidiaries | 477 | 22 |
| Bank balances and cash | 176,600 | 230,176 |
| | 308,979 | 322,819 |
| Financial assets measured at FVTPL: | | |
| Convertible promissory note | 33,005 | 28,086 |
| Unlisted equity investment | 269,206 | 229,879 |
| Unlisted managed fund | – | 28,143 |
| Convertible bonds receivable | – | 46,323 |
| | 302,211 | 332,431 |
| | 611,190 | 655,250 |
| **Financial liabilities** | | |
| Financial liabilities measured at amortised cost: | | |
| Trade and other payables | 30,664 | 41,917 |
| Lease liabilities | 23,236 | 7,794 |
| Amount due to a related party | 764 | 716 |
| Amounts due to fellow subsidiaries | 862 | – |
| Amount due to a non-controlling shareholder of a subsidiary | 11,919 | – |
| | 67,445 | 50,427 |

### 35.2 Financial risk management objectives and policies

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 31 December 2020*

## 35. FINANCIAL INSTRUMENTS – continued

### 35.2 Financial risk management objectives and policies – continued

***Market risk***

*Interest rate risk*

At 31 December 2020 and 2019, the Group is exposed to fair value interest rate risk in relation to fixed-rate bank deposits, fixed-rate convertible bonds receivable and fixed-rate convertible promissory note. It is the Group's policy to keep its loans at fixed rates of interest so as to minimise its exposures on interest rate movements.

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

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

*Foreign currency risk*

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

The carrying amounts of the Group's foreign currency denominated monetary assets at the end of the reporting period are disclosed in respective notes. At 31 December 2020 and 2019, the Group is mainly exposed to exchange rate fluctuations of United States dollar ("USD") and Euro ("EUR"). As Hong Kong dollar is pegged to USD, hence, the Group's foreign currency exposure against USD is not significant. The Group is mainly exposed to the effects of fluctuation in EUR.

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

| | **2020<br>EUR<br>HK$'000** | 2019<br>EUR<br>HK$'000 |
|---|---|---|
| Trade and other receivables | **469** | 374 |
| Convertible bonds receivable | **18,842** | 46,323 |
| Bank balances and cash | **20,240** | 17,576 |
| | **39,551** | 64,273 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 31 December 2020*

## 35. FINANCIAL INSTRUMENTS – continued

### 35.2 Financial risk management objectives and policies – continued

***Market risk – continued***

*Foreign currency risk – continued*

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

| | Sensitivity rate<br>% | Increase in loss<br>HK$'000 | Decrease in equity<br>HK$'000 |
|---|---|---|---|
| **2020** | | | |
| **EUR** | **5%** | **1,651** | **1,651** |
| 2019 | | | |
| EUR | 5% | 2,683 | 2,683 |

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

***Credit risk***

At 31 December 2020 and 2019, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties arises from the carrying amount of the respective recognised financial assets as stated in the consolidated statement of financial position.

(i) Trade receivables

The Group's credit risk is primarily attributable to its trade receivables. At 31 December 2020, the Group has concentration of credit risk on certain trade receivables as 6% (2019: 8%) and 15% (2019: 20%) of the total trade receivables was due from the Group's largest customer and the five largest customers, respectively. In order to minimise the credit risk, the management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual trade debt at the end of the reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors consider that the Group's credit risk is significantly reduced.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 31 December 2020*

## 35. FINANCIAL INSTRUMENTS – continued

### 35.2 Financial risk management objectives and policies – continued

***Credit risk – continued***

(i) Trade receivables – continued

The Group's management closely monitors the credit quality of trade receivables and considers the trade receivables that are neither past due nor impaired to be of a good credit quality based on the good payment history of the related debtors from historical experience. In addition, as set out in note 3.20(iv), for the year ended 31 December 2020, the Group assesses ECL under HKFRS 9 on trade receivables by reference to the probability of default and recovery rate by credit rating grades published by international credit-rating agencies. The loss rates are adjusted to reflect forward-looking macroeconomic factors affecting the customer's ability to settle the amount outstanding. At each reporting date, the loss rates are updated and changes in the forward-looking estimates are analysed.

The following table provides information about the Group's exposure to credit rick and ECL for trade receivables as at 31 December 2020 was determined as follows:

**31 December 2020**

| | Current | Within 3 months past due | Over 3 months but less than 6 months past due | Over 6 months but less than 1 year past due | Over 1 year past due | Total |
|---|---|---|---|---|---|---|
| | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| **ECL rate** | 0% | 0.3%-0.9% | 1.3%%-1.5% | 1.8%-10.0% | 100% | – |
| Gross carrying amount | | | | | | |
| – trade receivables | 59,847 | 14,148 | 11,527 | 3,062 | 708 | 89,292 |
| Lifetime ECL | – | 76 | 172 | 57 | 708 | 1,013 |

For the year ended 31 December 2019, the Group assesses ECL under HKFRS 9 on trade receivables based on provision matrix, the expected loss rates are based on the payment profile for sales as well as the corresponding historical credit losses. The historical rates are adjusted to reflect current and forward-looking macroeconomic factors affecting the customer's ability to settle the amount outstanding. Based on the above basis, the Group's management considers that the loss allowance inherent in the Group's outstanding trade receivables within one year are close to zero, while loss allowance is made in full on the Group's outstanding trade receivables overdue over one year.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 31 December 2020*

## 35. FINANCIAL INSTRUMENTS – continued

### 35.2 Financial risk management objectives and policies – continued

***Credit risk – continued***

(ii) Other financial assets at amortised cost

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

Besides, the Group's management is of opinion that there is no significant increase in credit risk on, amounts due from fellow subsidiaries and amounts due from a non-controlling shareholder of subsidiaries since initial recognition as the risk of default is low after considering the factors as set out in note 3.20(iv) and thus, ECL recognised is based on 12-month ECL and is close to zero.

For convertible bonds receivable, the Group assessed the ECL by reference to the probability of default and recovery rate by credit rating grades published by international credit-rating agencies and concluded that there are objective evidence of impairment at the reporting date given the counterparty has delayed its settlement for over 30 days. Having considered the economic environment in which the debtor operates (which is in Europe) and the liquidity condition of the debtor, the Group recognised a Stage 3 ECL allowance of approximately HK$30,838,000 for the year ended 31 December 2020. The loss rate is approximately 62.3%.

For amount due from a director, the Group assessed the ECL by reference to the probability of default and recovery rate by credit rating grades published by international credit-rating agencies and concluded that the credit risk is not low given the repayment from the director has been reducing in recent years. Accordingly, a Stage 2 ECL allowance of approximately HK$2,371,000 (2019: HK$Nil) was recognised for the year ended 31 December 2020. The loss rate is approximately 10.1%.

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 31 December 2020*

## 35. FINANCIAL INSTRUMENTS – continued

### 35.2 Financial risk management objectives and policies – continued

***Liquidity risk***

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

As at 31 December 2020 and 2019, the Group does not have any unutilised bank loan facilities.

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

| | On demand or less than 1 year | More than 1 year but less than 2 years | More than 2 years but less than 5 years | Over 5 years | Total undiscounted cash flows | Total carrying amount |
|---|---|---|---|---|---|---|
| | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| **At 31 December 2020** | | | | | | |
| Trade and other payables | **30,664** | **–** | **–** | **–** | **30,664** | **30,664** |
| Lease liabilities | **7,048** | **5,727** | **13,071** | **–** | **25,846** | **23,236** |
| Amount due to a related party | **764** | **–** | **–** | **–** | **764** | **764** |
| Amounts due to fellow subsidiaries | **862** | **–** | **–** | **–** | **862** | **862** |
| Amount due to a non-controlling shareholder of a subsidiary | **11,919** | **–** | **–** | **–** | **11,919** | **11,919** |
| | **51,257** | **5,727** | **13,071** | **–** | **70,055** | **67,445** |
| At 31 December 2019 | | | | | | |
| Trade and other payables | 41,917 | – | – | – | 41,917 | 41,917 |
| Lease liabilities | 2,816 | 1,508 | 3,741 | 673 | 8,738 | 7,794 |
| Amount due to a related party | 716 | – | – | – | 716 | 716 |
| | 45,449 | 1,508 | 3,741 | 673 | 51,371 | 50,427 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 31 December 2020*

## 35. FINANCIAL INSTRUMENTS – continued

### 35.3 Fair value measurement of financial instruments

***Financial assets and liabilities measured at fair value***

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

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

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

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

| | At 31 December 2020 | | | |
|---|---|---|---|---|
| | **Level 1** | **Level 2** | **Level 3** | **Total** |
| | **HK$'000** | **HK$'000** | **HK$'000** | **HK$'000** |
| **Recurring fair value measurement** | | | | |
| Financial assets at FVTPL: | | | | |
| Convertible promissory note | **–** | **–** | **33,005** | **33,005** |
| Unlisted equity investment | **–** | **–** | **269,206** | **269,206** |
| | **–** | **–** | **302,211** | **302,211** |

| | At 31 December 2019 | | | |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total |
| | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| Recurring fair value measurement | | | | |
| Financial assets at FVTPL: | | | | |
| Convertible promissory note | – | – | 28,086 | 28,086 |
| Unlisted equity investment | – | – | 229,879 | 229,879 |
| Unlisted managed fund | – | 28,143 | – | 28,143 |
| Convertible bonds receivable | – | – | 46,323 | 46,323 |
| | – | 28,143 | 304,288 | 332,431 |

During the years ended 31 December 2020 and 2019, there were no transfers between Level 1 and Level 2, or transfers into or out of Level 3. The Group's policy is to recognise transfers between levels of fair value hierarchy as at the end of the reporting period in which they occur.

The fair value of unlisted managed fund in Level 2 has been determined by reference to the reported net asset value quoted by the broker at the end of the reporting period. The movements during the year in the balance of Level 2 fair value measurements are disclosed in note 19(b).

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 31 December 2020*

## 35. FINANCIAL INSTRUMENTS – continued

### 35.3 Fair value measurement of financial instruments – continued

***Financial assets and liabilities measured at fair value – continued***

*Information about Level 3 fair value measurements*

The valuation techniques and significant unobservable inputs used to determine the fair values of financial assets at FVTPL are as follows:

| Valuation techniques | Significant unobservable inputs | Financial assets at FVTPL | Range | | Sensitivity relationship of unobservable inputs to fair value |
|---|---|---|---|---|---|
| | | | 2020 | 2019 | |
| Discounted cash flow model and binomial option pricing model | Expected volatility | Convertible promissory note | 70.9% | 50.0% | Increase/(decrease) in expected volatility would result in increase/(decrease) in fair value |
| | | Convertible bonds receivable | N/A | 51.5% | |
| | Discount rate | Convertible promissory note | 10.5% | 14.0% | Increase/(decrease) in discount rate would result in (decrease)/increase in fair value |
| | | Convertible bonds receivable | N/A | 8.9% | |
| Discounted cash flow model and binomial interest rate model | Expected volatility | Unlisted equity investment | 66.9% | 68.2% | Increase/(decrease) in expected volatility would result in increase/(decrease) in fair value |
| | Discount rate | Unlisted equity investment | 12.0% | 11.1% | Increase/(decrease) in discount rate would result in (decrease)/increase in fair value |

The movements during the year in the balance of Level 3 fair value measurements are disclosed in notes 18 and 19 respectively.

***Financial assets and liabilities not reported at fair value***

The directors of the Company consider that the carrying amounts of financial assets and financial liabilities carried at amortised cost in the consolidated financial statements approximate their fair values as at 31 December 2020 and 2019.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 31 December 2020*

## 36. STATEMENT OF FINANCIAL POSITION AND RESERVES OF THE COMPANY

| | Notes | 2020<br>HK$'000 | 2019<br>HK$'000 |
|---|---|---|---|
| **Non-current assets** | | | |
| Investments in subsidiaries | | 14,110 | 14,110 |
| Right-of-use assets | | – | 204 |
| | | 14,110 | 14,314 |
| **Current assets** | | | |
| Prepayments | | 677 | 831 |
| Amounts due from subsidiaries | | 484,289 | 506,256 |
| Bank balances and cash | | 13,932 | 22,675 |
| | | 498,898 | 529,762 |
| **Current liabilities** | | | |
| Other payables and accrued charges | | 6,164 | 4,955 |
| Lease liabilities | | – | 209 |
| | | 6,164 | 5,164 |
| **Net current assets** | | 492,734 | 524,598 |
| **Total assets less current liabilities/Net assets** | | 506,844 | 538,912 |
| **Capital and reserves** | | | |
| Share capital | 30 | 6,303 | 6,303 |
| Reserves | | 500,541 | 532,609 |
| **Total equity** | | 506,844 | 538,912 |

On behalf of the Board by:

**Zhang Huagang**
*Director*

**Luo Jun**
*Director*

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 31 December 2020*

## 36. STATEMENT OF FINANCIAL POSITION AND RESERVES OF THE COMPANY – continued

### Movement in the Company's reserves

| | Share premium HK$'000 | Share option reserve HK$'000 | Contributed surplus (note) HK$'000 | Accumulated losses HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|
| At 1 January 2019 | 984,639 | 68,538 | 24,930 | (177,221) | 900,886 |
| Loss for the year | – | – | – | (372,099) | (372,099) |
| Recognition of equity-settled share-based payment (note 31) | – | 3,822 | – | – | 3,822 |
| Release of share option reserve upon share options forfeited | – | (880) | – | 880 | – |
| At 31 December 2019 and 1 January 2020 | 984,639 | 71,480 | 24,930 | (548,440) | 532,609 |
| Loss for the year | – | – | – | (36,211) | (36,211) |
| Recognition of equity-settled share-based payment (note 31) | – | 4,143 | – | – | 4,143 |
| Release of share option reserve upon share options forfeited/lapsed | – | (52,853) | – | 52,853 | – |
| **At 31 December 2020** | **984,639** | **22,770** | **24,930** | **(531,798)** | **500,541** |

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 31 December 2020*

## 37. PARTICULARS OF SUBSIDIARIES

Details of the Company's principal subsidiaries, all of which are directly and indirectly owned by the Company at 31 December 2020 and 2019 are as follows:

| Name of subsidiary | Type of legal entity | Place of incorporation/ establishment/ operations | Particulars of issued and paid up capital/ registered capital | Effective equity interest attributable to the Group | | Principal activities |
|---|---|---|---|---|---|---|
| | | | | 2020 | 2019 | |
| On Growth Global Development Limited | Limited liability company | BVI | USD100 | 100% | 100% | Investment holding |
| Royal Dental Laboratory Limited | Limited liability company | Hong Kong | HK$1 | 100% | 100% | Trading in dental prosthetics |
| 深圳市金悠然科技有限公司 | Limited liability company | PRC | RMB42,000,000 | 100% | 100% | Manufacture of and trading in dental prosthetics |
| United Noble Development Limited | Limited liability company | Hong Kong | HK$100 | 100% | 100% | Investment holding of convertible bonds |
| Huge Profit Group Limited | Limited liability company | Hong Kong | HK$1 | 100% | 100% | Investment holding of convertible promissory note |
| 美加健康貿易(深圳)有限公司 | Limited liability company | PRC | RMB20,000,000 | 100% | 100% | Trading in dental prosthetics and medical technology development |
| 美加健康科技(深圳)有限公司 | Limited liability company | PRC | RMB20,000,000 | 100% | 100% | Medical consultation and medical technology development |
| 美加健康服務(深圳)有限公司 | Limited liability company | PRC | RMB100,000,000 | 100% | 100% | Medical consultation |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 31 December 2020*

## 37. PARTICULARS OF SUBSIDIARIES – continued

| Name of subsidiary | Type of legal entity | Place of incorporation/ establishment/ operations | Particulars of issued and paid up capital/ registered capital | Effective equity interest attributable to the Group | | Principal activities |
|---|---|---|---|---|---|---|
| | | | | 2020 | 2019 | |
| 深圳醫佳普通專科門診部 (formerly known as 深圳市醫佳健康醫療科技有限公司) (note d) | Limited liability company | PRC | RMB500,000 | 80% | 80% | Provision of medical services |
| 珠海十里蓮江農旅健康小鎮開發有限公司 (note e) | Limited liability company | PRC | RMB10,000,000 | 55% | – | Health care project development |
| 深圳佳醫普通專科門診部 (note f) | Limited liability company | PRC | RMB1,000,000 | 70% | – | Provision of medical services |

Notes:

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

(b) None of the subsidiaries had any debt securities subsisting at 31 December 2020 and 2019 or at any time during the years.

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

(d) On 6 May 2019, the Group had established a subsidiary 深圳醫佳普通專科門診部 (formerly known as 深圳市醫佳健康醫療科技有限公司) in the PRC, which is engaged to provide medical services under health care business segment.

(e) On 20 April 2020, the Group had invested in a subsidiary 珠海十里蓮江農旅健康小鎮開發有限公司 in the PRC, which is engaged to develop and operate an international healthcare project under health care business segment.

(f) On 13 August 2020, the Group had established a subsidiary 深圳佳醫普通專科門診部 in the PRC, which is engaged to provide medical services under health care business segment.

The Group includes one subsidiary (2019: nil) with material non-controlling interests ("NCI"), the details and the summarised financial information, before intragroup eliminations, are as follows:

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 31 December 2020*

## 37. PARTICULARS OF SUBSIDIARIES – continued

### Zhuhai Shili Lianjiang Health Care

| | 2020<br>HK$'000 |
|---|---|
| Proportion of ownership interests and voting rights held by the NCI | 45% |
| Current assets | 10,902 |
| Non-current assets | 46,772 |
| Current liabilities | (33,020) |
| Non-current liabilities | – |
| Net assets | 24,654 |
| Carrying amount of NCI | 11,094 |

| | From 20 April 2020 (date of incorporation) to 31 December 2020<br>HK$'000 |
|---|---|
| Revenue | – |
| Expenses | (1,729) |
| Loss for the year | (1,729) |
| Other comprehensive income for the year | 2,024 |
| Total comprehensive income for the year | 295 |
| Loss attributable to NCI | (778) |
| Total comprehensive income attributable to NCI | 133 |
| Dividend paid to NCI | – |
| Net cash flows used in operating activities | (8,028) |
| Net cash flows used in investing activities | (4,422) |
| Net cash flows from financing activities | 13,592 |
| Net increase in cash and cash equivalents | 1,142 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 31 December 2020*

## 38. RELATED PARTY TRANSACTIONS

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

| | 2020<br>HK$'000 | 2019<br>HK$'000 |
|---|---|---|
| **Nature of transactions** | | |
| Lease payment paid to Kaisa Group Holdings Ltd. | 372 | 570 |
| Management fee paid to Kaisa Financial Group Company Ltd. | 70 | 367 |
| Loan interest paid to Kaisa Group Holdings Ltd. | 152 | – |
| Interest income received from loan to a shareholder | – | 163 |

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

# FINANCIAL SUMMARY

| | Year ended 31 December | | | | |
|---|---|---|---|---|---|
| | 2016<br>HK$'000<br>(Note) | 2017<br>HK$'000<br>(Note) | 2018<br>HK$'000 | 2019<br>HK$'000 | **2020**<br>**HK$'000** |
| **RESULTS** | | | | | |
| Continuing operation | | | | | |
| Revenue | 188,140 | 226,703 | 241,948 | 251,618 | **183,810** |
| Profit/(Loss) before income tax | 9,252 | 13,597 | (19,255) | (362,671) | **(41,473)** |
| Income tax credit/(expense) | (10,547) | (8,049) | (2,784) | 7,625 | **778** |
| Profit/(Loss) for the year from continuing operation | (1,295) | 5,548 | (22,039) | (355,046) | **(40,695)** |
| Profit/(Loss) for the year from discontinued operation | (18,998) | (2,843) | – | – | **–** |
| Profit/(Loss) for the year | (20,293) | 2,705 | (22,039) | (355,046) | **(40,695)** |
| Profit/(Loss) for the year attributable to owners of the Company | | | | | |
| – from continuing operation | (1,645) | 5,548 | (22,039) | (354,673) | **(39,692)** |
| – from discontinued operation | (13,543) | (1,637) | – | – | **–** |
| | (15,188) | 3,911 | (22,039) | (354,673) | **(39,692)** |
| Profit/(Loss) for the year attributable to non-controlling interests | | | | | |
| – from continuing operation | 350 | – | – | (373) | **(1,003)** |
| – from discontinued operation | (5,455) | (1,206) | – | – | **–** |
| | (5,105) | (1,206) | – | (373) | **(1,003)** |
| | (20,293) | 2,705 | (22,039) | (355,046) | **(40,695)** |

Note:

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

| | As at 31 December | | | | |
|---|---|---|---|---|---|
| | 2016<br>HK$'000 | 2017<br>HK$'000 | 2018<br>HK$'000 | 2019<br>HK$'000 | **2020**<br>**HK$'000** |
| **ASSETS AND LIABILITIES** | | | | | |
| Total assets | 586,420 | 1,106,766 | 1,074,386 | 714,857 | **757,539** |
| Total liabilities | (79,918) | (63,885) | (69,292) | (73,196) | **(110,038)** |
| Net assets | 506,502 | 1,042,881 | 1,005,094 | 641,661 | **647,501** |
| Attributable to: | | | | | |
| Owners of the Company | 504,402 | 1,042,881 | 1,005,094 | 642,007 | **636,516** |
| Non-controlling interests | 2,100 | – | – | (346) | **10,985** |
| | 506,502 | 1,042,881 | 1,005,094 | 641,661 | **647,501** |

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