



2019

ANNUAL REPORT



AIDIGONG MATERNAL & CHILD HEALTH LIMITED

(Incorporated in Bermuda with limited liability)

(Stock code: 286)

Contents



| | |
|---|-----|
| CORPORATE INFORMATION | 2 |
| JOINT CHAIRMEN'S STATEMENT | 3 |
| INDUSTRY AND BUSINESS REVIEW | 5 |
| RESULTS FOR THE YEAR | 10 |
| MANAGEMENT DISCUSSION AND ANALYSIS | 11 |
| DIRECTORS' REPORT | 16 |
| PROFILES OF DIRECTORS AND SENIOR MANAGEMENT | 27 |
| CORPORATE GOVERNANCE REPORT | 32 |
| ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT | 54 |
| INDEPENDENT AUDITORS' REPORT | 83 |
| CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME | 90 |
| CONSOLIDATED STATEMENT OF FINANCIAL POSITION | 92 |
| CONSOLIDATED STATEMENT OF CHANGES IN EQUITY | 94 |
| CONSOLIDATED STATEMENT OF CASH FLOWS | 96 |
| NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS | 98 |
| FIVE-YEAR FINANCIAL SUMMARY | 219 |

* Should there be any discrepancy between the English and Chinese versions, the English version shall prevail.

Corporate Information

DIRECTORS

EXECUTIVE DIRECTORS

Ms. Zhu Yufei (*Joint Chairman and Chief Executive Officer*)
(Appointed on 6 December 2019)
Mr. Cheung Wai Kuen (*Joint Chairman*)
Mr. Lin Jiang (Re-designated from non-executive director to executive director on 14 February 2020)
Mr. Cheng Hau Yan (*Deputy Chairman*)
(Resigned on 10 October 2019)
Mr. Ye Jiong Xian (Resigned on 14 February 2020)
Mr. Li Runping (Appointed on 16 April 2020)

NON-EXECUTIVE DIRECTORS

Mr. Wong Kin Man
(Appointed on 16 August 2019)
Mr. Hou Kai Wen (Resigned on 14 February 2020)
Mr. Yang Zhibo (Appointed on 16 April 2020)

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Lam Chi Wing
Mr. Mai Yang Guang
Mr. Wong Yiu Kit, Ernest

AUDIT COMMITTEE

Mr. Wong Yiu Kit, Ernest (*Chairman*)
Mr. Lam Chi Wing
Mr. Mai Yang Guang

NOMINATION COMMITTEE

Mr. Mai Yang Guang (*Chairman*)
Mr. Lam Chi Wing
Mr. Wong Yiu Kit, Ernest

REMUNERATION COMMITTEE

Mr. Mai Yang Guang (*Chairman*)
Mr. Lam Chi Wing
Mr. Wong Yiu Kit, Ernest

COMPANY SECRETARY

Mr. Wong Wing Cheung

AUDITOR

HLB Hodgson Impey Cheng Limited
Certified Public Accountants
31st Floor, Gloucester Tower
The Landmark, 11 Pedder Street
Central, Hong Kong

PRINCIPAL BANKERS

China Merchants Bank Co., Ltd.
China Construction Bank Corporation
The Bank of East Asia Limited
CMB Wing Lung Bank Limited
Bank of Dongguan Co., Ltd.
Dongguan Rural Commercial Bank Co., Ltd.

PLACE OF INCORPORATION

Bermuda

REGISTERED OFFICE

Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

PRINCIPAL OFFICE

Unit E, 28th Floor, YHC Tower,
1 Sheung Yuet Road,
Kowloon Bay, Kowloon, Hong Kong

PRINCIPAL REGISTRAR AND TRANSFER OFFICE

MUFG Fund Services (Bermuda) Limited
4th Floor North Cedar House
41 Cedar Avenue
Hamilton HM 12
Bermuda

BRANCH REGISTRAR AND TRANSFER OFFICE

Tricor Secretaries Limited
Level 54, Hopewell Centre
183 Queen's Road East
Hong Kong

WEBSITE

www.aidigong.hk

STOCK CODE

286

BOARD LOT

2,000 shares

INVESTOR RELATIONS

For enquiries relating to investor relations, please contact:
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Joint Chairmen's Statement



Dear Shareholders,

We are pleased to present the results of Aidigong Maternal & Child Health Limited (the "Company") and its subsidiaries (collectively, the "Group") for the year ended 31 December 2019 (the "Year") to the shareholders of the Company (the "Shareholders").

FUTURE PROSPECTS

In the past year, by acquiring the 88.5184% equity interest of Shenzhen Aidigong Maternity Health Management Co., Ltd.* (深圳愛帝宮母嬰健康管理股份有限公司) ("Shenzhen Aidigong"), thereafter with an effective interest of approximately 94.95%, and changed our name to "Aidigong Maternal & Child Health Limited", the Group quickly became one of the leading enterprises in the postpartum care service industry. In the future, the Company will further expand its market share by continuously focusing on its operation to reinforce its leadership position.

The postpartum care service industry is an emerging health service industry that provides healthcare services for postnatal mothers and babies. The industry is currently at a high-growth stage with tremendous market potential in future. Consumer groups have rapidly penetrated from first-tier cities into second-tier and third-tier cities with increasing double-digit market penetration rate. It is the choice of more and more pregnant mothers to enjoy health care at postpartum care centres after labour and it has become an irresistible trend. The postpartum care services are obviously the most rigid demand segment in the health service industry.

The healthcare of the branded postpartum care centres has a complete range of nursing expertise and functions, which is incomparable than hiring a housekeeping helper to take care of household works. We expect that the future pattern of the postpartum care service industry will be a long-term coexistence between postpartum care centre and housekeeping helper. The market share of postpartum care centres will surpass that of housekeeping helpers and occupy a leading position in the postpartum care service industry on a long-term basis. The postpartum care centres will continue to differentiate into high-end and general categories to meet the different needs of high-income and middle-income classes. The market share of branded enterprises will constantly be expanding and industry concentration will increase accordingly. The low-end, poor-quality postpartum care centres will be eliminated by branded postpartum care centres and housekeeping helpers and eventually exit the postpartum care centre industry.

At present, the Group's brand of "Aidigong" occupies a high-end position, and its main consumer targets are high income groups such as socialites and industry elites. Since 2007 it has served over 20,000 mothers and received excellent reputation. The "Aidigong" brand has opened shops in Shenzhen, Beijing and Chengdu.

* For identification purpose only

Joint Chairmen's Statement *(Continued)*

As more and more pregnant mothers choose postpartum care services after labour, we realize that there is also a large demand of postpartum care services for middle-income class. To this end, we will create new brands and open comfortable postpartum care centres nationwide targeting at middle-income class, so as to achieve comprehensive coverage of high-end and general postpartum care services.

At present, the concentration of the postpartum care service industry is extremely low with a large number of companies and qualities are uneven, which is a common phenomenon for an industry in its early stage of development. And for this reason, a large number of industry consolidation opportunities exist in the postpartum care service industry and for us, a good timing to conduct external mergers and acquisition integration.

The next ten years will be the golden decade of the postpartum care service industry development. We will focus on postpartum care services and rapidly develop the postpartum care service market through "endogenous + extension" development measures. We will give priority to develop the high-end postpartum care service market layout to accelerate the "Aidigong" brand distribution nationwide, focus on first-tier and new first-tier cities; and at the same time layout comfortable postpartum care centres to serve middle-income class, and deploy distribution in first-tier, new first-tier, second-tier, and third-tier cities to further expand the coverage of postpartum care service market across the country.

We would like to take this opportunity to express our gratitude to the Shareholders for their continued support, and the directors of the Company (the "Directors") and those who have worked for the Group for their valuable contributions.

On behalf of the Board

Aidigong Maternal & Child Health Limited

Zhu Yufei
Joint Chairman

Cheung Wai Kuen
Joint Chairman

Hong Kong, 11 May 2020

A photograph of a woman with blonde hair tied in a ponytail, wearing a white shirt, holding a baby in her arms. The baby is wearing a white onesie. The background is a soft, out-of-focus indoor setting.

專注月子服務
Focus on the maternal service



INDUSTRY REVIEW

Over the past year, the healthcare industry still maintained a strong development momentum despite the fact that certain industries were affected to some extent by multiple challenges faced by the national economy.

The postpartum care industry is an emerging healthcare service industry providing healthcare services to mothers and infants. According to the Report on the Research and Investment Prospects of Postpartum Care Centre Industry in China from 2016 to 2022 (《2016-2022年中國月子中心行業研究與投資前景分析報告》) published by Industry Information Web (產業資訊網), the market size of postpartum care services in Mainland China achieved a compound annual growth rate of 42% from 2010 to 2014. The postpartum care clubhouses had entered into a rapid development stage since 2011. However, it is still at an early stage of development and they are mainly located in large and medium-sized cities in Mainland China. The market potential has yet to be fully unleashed as there are plenty of room for development in the future. The Report on Market Demand and Investment Planning and Analysis of Postpartum Care Centre Industry in China from 2018 to 2023 (《2018-2023年中國月子中心行業市場需求與投資規劃分析報告》) published by Qianzhan Industry Research Institute (前瞻產業研究院) has revealed that the postpartum care centres penetration rate was approximately 5% to 8% in first-tier cities in Mainland China as compared with that of over 70% in Taiwan, indicating that there is a huge development potential for the postpartum care centres in first-tier cities in Mainland China. Contributed by multiple factors such as the increased number of new-born, increase in consumption level, changes in consumption mentality and industrial policies implementation etc., the size of postpartum care market is expected to continue to expand. The analysis report from Qianzhan Industry Research Institute has stated that, assuming the penetration rate of postpartum care centres in Beijing, Guangzhou and Shenzhen will increase to 18% by 2022, the postpartum care centres in Shanghai will have a penetration rate of up to 20%, as there are more postpartum care centres in Shanghai, and their demand for such services is higher, and on the basis of that assumption, the penetration rate for 32 second-tier cities will be 10%, the penetration rate for other economically developed cities and third-tier cities will be 8% and 3%, respectively. Assuming a stable growth, and based on the service fees charged by mainstream postpartum care centres prices, the market size of postpartum care centres in Mainland China is expected to reach RMB35 billion by 2022.

BUSINESS REVIEW

POSTPARTUM CARE SERVICES

During the Year, the Group completed the further acquisition of Shenzhen Aidigong and its financial statements were consolidated to the consolidated financial statements of the Group. Shenzhen Aidigong is one of the first batch of enterprises in China providing in-house living maternal and child healthcare services. After over a decade years of development, over 20,000 mothers enjoyed its services and it currently has five postpartum care centres located in Shenzhen, Beijing and Chengdu. During the Year, its business performance was as follows:

| | Period commencing on the date of completion of acquisition (i.e. 13 September 2019) and ending on 31 December 2019 HK\$'000 | For the year ended 31 December 2019 HK\$'000 |
|-----------------------------------|---|--|
| Turnover | 232,828 | 658,483 |
| Gross Profit | 119,137 | 288,519 |
| Administrative expenses | 12,668 | 46,074 |
| Selling and distribution expenses | 33,276 | 112,892 |
| Profit for the period/year | 59,944 | 104,952 |

During the pandemic, although many service industries are closed for business, owing to the rigid demand nature of the postpartum care service industry, all postpartum care centres of Shenzhen Aidigong have strictly implemented the preventive measures promulgated by respective state departments and they have been in normal operation.

The “Aidigong” postpartum care centre is a directly-operating independent postpartum care centre positioned at high-end market with high privacy and high security. It offers many-to-one professional care system providing services by expert teams, including 9 major service systems and 1,300 maternal and child health care operation points.





BUSINESS REVIEW (CONTINUED)

POSTPARTUM CARE SERVICES (CONTINUED)

The postpartum care services provided by “Aidigong” postpartum care centres include five major service segments. One of them is the basic maternal and infant nursing service during the postpartum care period, which includes 24-hour maternal and infant care by dedicated nurses, and provides personalized meals for mothers customized by nutritionists, dedicated nurse to provide babies with early education such as swimming touch, auditory and visual development, and to teach scientific professional parenting knowledge to mothers. The other four major business segments include postpartum rehabilitation, yoga shaping, breast management and baby photography. The postpartum rehabilitation segment helps mothers to recover fully through rehabilitation programmes. The yoga shaping segment is taught by yogis teaching mothers to reshape themselves quickly and safely through yoga exercises. The breast management segment is to help mothers solving their breastfeeding problems by breastfeeders. The baby photography segment includes taking pictures and photography of babies.



LIST OF NUMBER OF ROOMS

| | As at 31 December 2019 Rooms |
|--------------------------------|---------------------------------------|
| Postpartum care centres | |
| Xiangmihu, Shenzhen | 112 |
| Silver Lake, Shenzhen | 48 |
| Nanshan, Shenzhen | 149 |
| Beijing | 54 |
| Chengdu | 72 |
| Total | 435 |



BUSINESS REVIEW *(CONTINUED)*

LIST OF NUMBER OF ROOMS *(CONTINUED)*

On 31 December 2019, Shenzhen Aidigong had bank and cash balances of approximately HK\$53,818,000, structured bank deposits with principal amount of approximately HK\$145,533,000, and receipts in advance of approximately HK\$164,334,000. The gross profit ratio for the year was 43.8% and the return on equity of Shenzhen Aidigong was 38.6%.

The postpartum care services contributed very strong performance in sales and profit growth to the Group as well as plenty of continuous cash flow. In the future, the Group will focus on the development of postpartum care service business.

HEALTH INDUSTRY

MEDICAL ANTI-AGING AND HEALTHCARE INDUSTRY INVESTMENTS

The Group's medical anti-aging business including both life anti-aging business and medical beauty anti-aging business, which mainly targets at providing health services to the elites. It enjoyed organic and stable development over the past year, but is vulnerable to global pandemic development have exerted negative impact on the business to a certain extent lately.

Located in the Guangdong-Hong Kong-Macao Greater Bay Area, the Health Preservation Base of the Group in Luofu Mountain, our project under construction in which the Group held 51% equity interests, has obtained a land area of approximately 123 mu with a land cost of RMB632,500 per mu. The plot ratio is 2.0 and the maximum saleable floor area is not more than 160,000 square metres, which is equivalent to a land floor price of RMB474.4 per square metre. It is expected that sales will commence in mid-2020 and the expected selling prices of health preservation apartment and health preservation villa will be around RMB10,000 per square metre and RMB15,000 to RMB20,000 per square metre, respectively. The Health Preservation Base is targeted at the elites. It will provide integrated health preservation services such as Chinese medical health preservation, sleeping health preservation, and diet health preservation. The relevant health preservation properties are expected to be available for lease or for sale.





BUSINESS REVIEW *(CONTINUED)*

HEALTH INDUSTRY (CONTINUED)

MEDICAL ANTI-AGING AND HEALTHCARE INDUSTRY INVESTMENTS *(CONTINUED)*

Investment projects currently held by the Group includes JP Partners Medical Group, Fengshuo Bio Medical Tech Group and Wanqi Marine Bio. The JP Partners Medical Group comprises eighteen private medical centres in Hong Kong. The Fengshuo Bio Medical Tech Group is principally engaged in the research of the dioscorea composita root extract technology's commercial applications and production. The Wanqi Marine Bio, a national high-tech enterprise located in Shenzhen, is principally engaged in seahorse breeding, which is a health product for food and medical purposes. For the above industrial investments, the Company will take profit maximisation as its objective and will pull out when appropriate.

During the Year, revenue from Medical Anti-aging and Healthcare Industry Investments amounted to approximately HK\$86,124,000 (2018: HK\$114,975,000), which represented a decrease of approximately HK\$28,851,000 compared to 2018. The decrease was mainly due to the downturn of the performance of the medical beauty anti-aging group during second half of 2019.

NATURAL HEALTH FOOD BUSINESS

The main business of the Group's natural health food is grain and oil trading. Its revenue had increased to approximately HK\$284,381,000 in 2019 from approximately HK\$249,795,000 in 2018. Sales for the year went up but its profit margin is relatively low and its sales are also susceptible to market fluctuations. The Group has downsized its business substantially since 2020.

Results for the Year

Revenue of the Group for the Year amounted to HK\$610,612,000 (2018: HK\$377,035,000), which represented a year on year increase of HK\$233,577,000 or 61.95%. The increase was mainly due to the net effect of (i) the revenue of a newly acquired segment of postpartum care services acquired in 2019 which contributed to the Group amounted to HK\$232,828,000; (ii) increase in sales revenue of the natural health food business from HK\$249,795,000 in 2018 to HK\$284,381,000 in 2019; and (iii) decrease in revenue from Medical anti-aging and healthcare industry investments from HK\$114,975,000 in 2018 to HK\$86,124,000 in 2019.

Gross profit of the Group for the Year amounted to HK\$191,581,000 (2018: HK\$97,543,000), an increase of HK\$94,038,000 or 96.4% as compared to previous year. Gross profit margin for the Year had increased and was 31.4% for 2019 (2018: 25.9%). The increase in the Group's gross profit and gross profit margin were mainly due to the increase in income generated from the postpartum care services which has a higher profit margin.

Profit before income tax of the Group for the Year increased by HK\$16,250,000 or 81.8% from HK\$19,876,000 in 2018 to HK\$36,126,000 in 2019. The increase in profit was mainly due to the net effect of (i) the increase in revenue and gross profit of the postpartum care services; (ii) increase in administrative expenses and selling and distribution expenses from HK\$64,005,000 in 2018 to HK\$89,081,000 in 2019 and from HK\$1,318,000 in 2018 to HK\$37,906,000 in 2019 respectively due to the new segment of postpartum care services; (iii) decrease in share of result of associates from HK\$17,371,000 in 2018 to HK\$8,351,000 in 2019; (iv) one-off gain on disposal of an associates of HK\$16,625,000 in 2019; (v) fair value change of contingent consideration payable amounted to a loss of HK\$5,821,000 in 2019; (vi) impairment loss recognised in respect of interest in an associate of HK\$13,034,000 in 2019; (vii) no fair value change on derivative financial liabilities which had a loss of HK\$2,438,000 in 2018 and (viii) no gain on derecognition of convertible notes which had a gain of HK\$7,391,000 in 2018.

Profit attributable to the owners of the Company for the Year was approximately HK\$11,237,000 (2018: HK\$2,160,000), which represented an increase of HK\$9,077,000 or 420.2%, as compared to that of 2018. This resulted in the increase in basic and diluted earnings per share attributable to the owners of the Company of HK0.35 cents respectively (2018: HK0.07 cents).

Management Discussion and Analysis



FINANCIAL HIGHLIGHTS

NET ASSET VALUE

As at 31 December 2019, total net assets of the Group amounted to approximately HK\$1,306,807,000 (2018: HK\$962,227,000), representing an increase of HK\$344,580,000, as compared to 2018. The increase was mainly due to the net effect of (i) proceeds from the issue of new shares by placing and subscription amounted to HK\$342,176,000; (ii) exchange loss on translating foreign operations arising during the Year of HK\$26,338,000; (iii) profit for the Year of HK\$17,087,000, and (iv) change in value of equity investments at fair value through other comprehensive income amounted to HK\$24,352,000.

As at 31 December 2019, net asset value per issued ordinary shares of the Company was HK\$0.34 (2018: HK\$0.32).

The current ratio (calculate as current assets to current liabilities) for the Year was 1.07 (2018: 1.35).

EQUITY

The number of issued ordinary shares of the Company as at 31 December 2019 was 3,830,915,008 (2018: 2,996,255,008).

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2019, the Group has a principal amount of HK\$132,700,000 (31 December 2018: HK\$107,800,000) unsecured bonds payable, approximately HK\$459,753,000 (31 December 2018: Nil) secured bank loan, HK\$5,593,000 (31 December 2018: Nil) unsecured bank loan, HK\$1,119,000 (31 December 2018: HK\$1,138,000) guaranteed bank loan and HK\$15,000,000 (31 December 2018: HK\$15,000,000) other borrowings.

The Group fully redeemed the secured convertible notes (31 December 2018: US\$8,000,000 (equivalent to approximately HK\$62,400,000)) and the secured guaranteed notes (31 December 2018: HK\$80,000,000) during the Year.

Save as disclosed above, the Group did not have any other borrowing as at 31 December 2019.

Reference is made to the Company's announcements dated (i) 14 December 2016, 21 December 2016, 15 August 2018 and 3 January 2020 regarding, among other things, the WT Note issued by the Company in a principal amount of HK\$100,000,000 to Wan Tai, an indirect wholly-owned subsidiary of CCB International (Holdings) Limited at an initial conversion price of HK\$0.70 per conversion share; and (ii) 5 August 2016, 16 August 2016, 15 August 2018 and 3 January 2020 regarding, among other things, the Great Wall CB issued by the Company in a principal amount of US\$10,000,000 to Great Wall at an initial conversion price of HK\$0.858 per conversion share.

In December 2019, each of the WT Note and the Great Wall CB was redeemed in full and following the redemption, they were both cancelled. As at 31 December 2019, no Shares could be issued pursuant to such instruments after the respective redemption.

FINANCIAL HIGHLIGHTS *(CONTINUED)*

LIQUIDITY AND FINANCIAL RESOURCES *(CONTINUED)*

The Group maintains sufficient working capital and cash position for daily operations. Bank and cash balances as at 31 December 2019 amounted to approximately HK\$80,098,000 (31 December 2018: HK\$8,016,000).

The Group has adopted a prudent financial management approach towards its treasury policies. The cash and bank balances were denominated in RMB, Hong Kong dollar and United State dollar and the bank borrowings facilities available to the Group were denominated in Renminbi and bear floating interest rates. The Group continued to have no foreign exchange contracts and investment in listed shares, bonds and debentures. As at 31 December 2019, the Group held structured bank deposits (“SBDs”) at certain banks. Pursuant to the relevant underlying agreements, the SBDs generally carry income at a variable rate per annum with reference to the performance of foreign currency, commodity price, or assets during the investment period and the principal sums are denominated in RMB. Certain of the structured bank deposits are principal protected. The structured bank deposits are either redeemable on demand or have a maturity date ranged from three to seven months. The Group is not exposed to material fluctuations risks in exchange rates.

PLEDGE OF ASSETS

During 2019 and immediately prior to the relevant discharge due to the redemption of the Great Wall CB, the entire issued share capital of a wholly-owned subsidiary of the Company, namely Common Splendor Hong Kong Investment Fund Management Limited (“CSHK Investment Fund Management”), which was charged to China Great Wall AMC (International) Holdings Co., Limited as a security for convertible notes issued by the Company in the principal amount of US\$8,000,000 (equivalent to approximately HK\$62,400,000) was released. The total assets of CSHK Investment Fund Management and its subsidiaries amounted to approximately HK\$308,064,000 as at 31 December 2018. Furthermore, the entire issued capital of two wholly-owned subsidiaries of the Company, namely Harvest Luck Investment Limited (“Harvest Luck”) and Great King Limited (“Great King”) which was charged to Wan Tai as a security for guaranteed notes issued by the Company in the principal amount of HK\$80,000,000 was released due to the redemption of the guaranteed notes during the Year. The total assets of Harvest Luck, Great King and their subsidiaries amounted to approximately HK\$448,267,000 as at 31 December 2018.

Reference is made to the Company’s announcement dated 16 September 2019 regarding, among other things, the loan agreements entered into between Guangdong Common Splendor Health Industry Group Limited (廣東同佳健康產業集團有限公司) (“Guangdong CS”), a wholly-owned subsidiary of the Company, as borrower, with Dongguan Rural Commercial Bank Co., Ltd. (“DRC Bank”), as lender, pursuant to which, DRC Bank, Donglian Branch agreed to make available to Guangdong CS the loan facilities of up to an aggregate principal amount of RMB340 million. Guangdong CS provided share pledge of up to RMB510 million over 88.5184% share interest in Shenzhen Aidigong. The Company provided guarantee and Mr. Cheung provided a personal guarantee to the loan facilities.

On 22 April 2019, the Group obtained a loan facility of RMB71 million from Bank of Dongguan Co., Ltd., and the loan was secured by, among other things, a parcel of land of the Group in Luofu Maintain, the PRC, with carrying amount of approximately HK\$87.6 million and a personal guarantee by Mr. Cheung Wai Kuen, the executive Director and Joint Chairman.

The provision of such personal guarantees constitute financial assistance to the Group under Chapter 14A of the Listing Rules. Given that the personal guarantees are not secured by any assets of the Group, and that the Directors consider that the personal guarantees are conducted on normal commercial terms or better to the Group, the personal guarantees are fully-exempted from the shareholders’ approval, annual review and all disclosure requirements pursuant to Rule 14A.90 of the Listing Rules.

Save as disclosed above, no asset was pledged by the Group as at 31 December 2019 and 31 December 2018.



FINANCIAL HIGHLIGHTS *(CONTINUED)*

REMUNERATION POLICIES AND SHARE OPTION SCHEME

It is the Group's policy to recruit the right person for each position based on the person's qualification and experience. The remuneration of each employee is reviewed every year based on the performance of the employee with reference to the prevailing market conditions. During the Year, total staff costs excluding Directors' emolument was approximately HK\$72,365,000 (2018: HK\$14,972,000).

At the annual general meeting of the Company held on 11 October 2012, the shareholders of the Company approved the adoption of a share option scheme ("2012 Share Option Scheme"). The purpose of the 2012 Share Option Scheme is to provide incentives or rewards to Eligible Participants (as defined in the 2012 Share Option Scheme) of the 2012 Share Option Scheme for their contribution to, and continuing efforts to promote the interests of the Group. The Eligible Participants include any employees of the Group (including any directors, whether executive or non-executive and whether independent or not, of the Company or any of its subsidiaries) and any customer, supplier, service provider, shareholder, adviser or consultant and any person who, in the sole discretion of the Board, has contributed or may contribute to the Group. Unless otherwise cancelled or amended, the 2012 Share Option Scheme will remain in force for ten years from the commencement date. During the Year, no share option was granted pursuant to the 2012 Share Option Scheme. As at 31 December 2019, no share option was outstanding (31 December 2018: Nil).

The Board has approved the adoption of a share award scheme (the "Scheme") on 5 July 2018 and it was approved by the shareholders of the Company at the special general meeting held on 30 August 2018. The purposes and objectives of the Scheme are to recognise the contributions by certain employee, director, officer, consultant or adviser of the Group and to provide them with incentives in order to retain them for the continual operation and development of the Group, and to attract suitable personnel for further development of the Group. During the Year, no share award was granted pursuant to the Scheme (30 August 2018 to 31 December 2018: Nil).

CONTINGENT LIABILITIES

The Group did not have any material contingent liabilities (2018: Nil).

MATERIAL ACQUISITIONS AND DISPOSALS

ACQUISITION OF SUBSIDIARIES

Reference is made to the announcements of the Company dated 25 January 2019, 27 February 2019, 29 April 2019, 28 June 2019, 23 July 2019 and 13 September 2019 and the circular of the Company dated 26 July 2019. On 28 August 2019, an ordinary resolution was passed at the Company's special general meeting to approve the acquisition of 88.5184% of the issued share capital of Shenzhen Aidigong at the aggregate maximum consideration of RMB888,000,000.

The transfer of the equity interest has been completed on 13 September 2019. Upon completion of the transfer, (i) the Shenzhen Aidigong is owned by the Company through Guangdong Common Splendor Health Industry Company Limited (a wholly-owned subsidiary of the Company) as to 88.5184% and through Dongguan Common Splendor Investment Management Partnership (Limited Partnership) (a non-wholly owned subsidiary owned as to 56% by the Company) as to 11.4816%; and (ii) Shenzhen Aidigong has become an indirect non-wholly owned subsidiary of the Company and its financial results was consolidated to the consolidated financial statements of the Group since the completion date.

Pursuant to the conditional equity transfer agreement dated 24 January 2019 (as amended and supplemented) in relation to the subject acquisition, as earn-out payment, Guangdong CS may be required to pay the forth and fifth installment consideration for the acquisition with reference to the audited consolidated net profit attributable to the equity owners of the parent company of Shenzhen Aidigong. The maximum amount of such earn-out payment would be RMB309,358,000. For details of the calculation for payment of such earn-out payment and the relevant mechanisms, please refer to the Circular.

DISPOSAL OF AN ASSOCIATE

Reference is made to the announcements of the Company dated 6 March 2019 and 1 April 2019. On 6 March 2019, the Group entered into a disposal agreement with Yellow Dragon Medical Alliance Limited ("Yellow Dragon"), pursuant to which, the Group has agreed to sell approximately 12.2% of the issued shares of Dragon Pride Enterprises Limited, which is an associate of the Company, at a consideration of approximately HK\$19.52 million ("Disposal"). On the same date, the Group entered into an acquisition agreement, pursuant to which, the Group agreed to purchase from Billion High Worldwide Investments Limited (a substantial shareholder of Wealthy Kingdom, i.e. a connected person of the Company at the subsidiary level) the remaining 30% interest in Wealthy Kingdom at a consideration of approximately HK\$11.71 million ("Acquisition"), following which, Wealthy Kingdom became a wholly-owned subsidiary of the Group. The Acquisition is a connected transaction subject to reporting and announcement requirements, but exempt from circular, independent financial advice and independent Shareholders' approval requirements under Chapter 14A of the Listing Rules. The Disposal was completed on 1 April 2019 in accordance with the terms and conditions as set out in the Disposal Agreement. Upon completion of the Disposal, the Company's indirect interest in Dragon Pride fell from approximately 24.4% to approximately 12.2%.



MATERIAL ACQUISITIONS AND DISPOSALS *(CONTINUED)*

OTHER INFORMATION

PROFIT GUARANTEE IN RESPECT OF THE GROUP'S MEDICAL BEAUTY ANTI-AGING BUSINESS

Reference is made to the announcement of 3 January 2019, the profit target of Golden Time Ventures Limited and its subsidiaries (the "GTV Group") for the twelve-month period ended 31 October 2018 under the sale and purchase agreement dated 12 August 2017 has been fulfilled. Accordingly, the first tranche consideration shares issued to several vendors in October 2017, being 290,000,000 Shares, in aggregate, are no longer subject to the relevant lock-up undertaking.

The actual audited consolidated net profit of GTV Group for the twelve-month period ended 31 October 2019 amounted to approximately HK\$34 million, which is higher than corresponding profit target of HK\$30 million. Accordingly, the remaining consideration shares, being 90,000,000 Shares, in aggregate, are released after fulfillment of the relevant profit target.

PROFIT AND TECHNICAL GUARANTEE OF AN ASSOCIATE

Reference is made to the announcements dated 23 November 2015, 28 March 2018, 6 September 2018, 30 November 2018, 19 December 2018, 1 November 2019 and 15 November 2019, the guarantee technical requirement of Guangdong Fengyuan Huake Bio Tech Company Limited ("Guangdong Fengyuan") has been achieved. However, the guarantee profit of RMB38 million for the year ended 31 December 2017 had not been met.

On 30 November 2018, among other parties, the Group and Guangdong Fengyuan Technology Innovation Bio Tech Company Limited* (廣東豐源科創生物科技有限公司) (the "Vendor"), Guangdong Fengyuan and Fengshuo Bio Medical Tech Company Limited entered into a supplemental agreement ("Supplemental Agreement"). According to the Supplemental Agreement, the Vendor has agreed to compensate the Group in the amount of RMB5.69 million. Under the Supplemental Agreement, the guarantee net profit of Guangdong Fengyuan for the years ending 31 December 2018, 31 December 2019 and 31 December 2020 will not be less than RMB20 million, RMB20 million and RMB38 million respectively. Based on the audited financial statements of Guangdong Fengyuan for the year ended 31 December 2018, the net profits amounted to approximately RMB22.7 million. Accordingly, given the guarantee net profit for the year ended 31 December 2018 has been met, no equity interest in Guangdong Fengyuan held by the Vendor has to be transferred to the Group. Based on the audited financial statements of Guangdong Fengyuan for the Year, the Actual 2019 Net Profit amounted to approximately RMB21.9 million, which is higher than the 2019 Guarantee Net Profit of RMB20 million. Accordingly, given the 2019 Guarantee Net Profit has been met, no equity interest in Guangdong Fengyuan held by the Vendor has to be transferred to the Group due to any shortfall in the 2019 Guarantee Net Profit under the Supplemental Agreement.

Directors' Report

The Board is pleased to present to the Shareholders their report together with the audited consolidated financial statements of the Group for the Year.

BACKGROUND AND CHANGE OF COMPANY'S NAME

During the Year, the Company has further acquired interests in Shenzhen Aidigong Modern Maternity Health Management Co., Ltd.* (深圳愛帝宮現代母嬰健康管理有限公司) ("Shenzhen Aidigong"). Following such further acquisition, it was considered that, among other things, the change of Company's name would provide the Company with a more appropriate corporate image and identity in respect of its business scope, therefore, the name of the Company was changed from "Common Splendor International Health Industry Group Limited" to "Aidigong Maternal & Child Health Limited" and the secondary name in Chinese of the Company has been changed from "同佳國際健康產業集團有限公司" to "愛帝宮母嬰健康股份有限公司".

PRINCIPAL BUSINESS

The Company acts as an investment holding company. The principal business of its principal subsidiaries are set out in note 48 to the consolidated financial statements.

BUSINESS REVIEW

The business review of the Group for the Year, which forms part of this directors' report, is set out in the Management Discussion and Analysis on page 11 of this report.

PROPERTY, PLANT AND EQUIPMENT

Details of investments in the property, plant and equipment of the Group during the Year are set out in note 16 to the consolidated financial statements.

REVENUE AND OPERATING SEGMENTS INFORMATION

The Group's revenue and contribution to profit for the Year from operations analysed by principal business are set out in notes 7 and 8 to the consolidated financial statements.

SUBSIDIARIES, ASSOCIATES AND JOINT VENTURES

Particulars of the Company's principal subsidiaries, associates and joint ventures as at 31 December 2019 are set out in notes 48, 20 and 21 to the consolidated financial statements respectively.

RESULTS AND APPROPRIATIONS

The results of the Group for the Year are set out in the consolidated statement of profit or loss and other comprehensive income on pages 90 to 91 of this report.

The Board resolved to propose the payment of a final dividend of HK0.067 cents per share of the Company for the Year (2018: Nil).



RISKS AND UNCERTAINTIES RELATING TO THE GROUP'S BUSINESS

The Group's financial condition, results of operations, businesses and prospects would be affected by a number of risks and uncertainties including business risks, operational risks, manpower and retention risks and financial risks. The Group's key risk exposures are summarised as follows:

| | |
|------------------------------|--|
| Business risks | Performance of the Group's core business will be affected by various factors, including but not limited to economic conditions, performance of the healthcare market, performance of our investments held. The Group proactively monitors industry trends, technology innovations and responsive to changes in consumer behaviour. |
| Operational risks | Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. Responsibility for managing operational risks basically rests with every function at divisional and departmental levels. Key functions in the Group are guided by their standard operating procedures, limits of authority and reporting framework. Our management will identify and assess key operational exposures regularly so that appropriate risk response can be taken. |
| Manpower and retention risks | The Group may face the risk of not being able to attract and retain key personnel and talents with appropriate and required skills, experience and competence which would meet the business objectives of the Group. The Group will provide attractive remuneration package to suitable candidates and personnel. |
| Compliance risks | The risk of loss resulting from breach of or non-compliance with applicable laws and regulations. The Group engages a legal advisory firm to provide relevant legal advice and compliance reviews on the Group's documentations and publications. |
| Financial risks | <ul style="list-style-type: none">(i) foreign currency risk(ii) interest rate risk(iii) credit risk <p>Details of the financial risk management are set out in note 5 to the consolidated financial statements.</p> |

There may be other risks and uncertainties in addition to those mentioned above which are not known to the Group or which may not be material now but could turn out to be material in the future.

For procedures and information of the Group's risk management and internal control system, please refer to the section headed "RISK MANAGEMENT AND INTERNAL CONTROL" in the Corporate Governance Report.

ENVIRONMENTAL POLICIES AND PERFORMANCE

The Group is committed to achieving environmental sustainability. Our commitment to protect the environment is well reflected by our continuous efforts in promoting green measures and awareness in our daily business operations. The Group encourages environmental protection and promotes awareness towards environmental protection to the employees. The Group adheres to the principle of recycling and reducing. It implements green office practices such as double-sided printing and copying, setting up recycling bins, promoting using recycled paper and reducing energy consumption by switching off idle lightings and electrical appliance.

The Group endeavours to comply with the relevant laws and regulations regarding environmental protection and adopt effective measures to achieve efficient use of resources, waste reduction and energy saving. The Group will review its environmental practices from time to time and will consider implementing further eco-friendly measures and practices in the operation of the Group's businesses to move towards adhering the 3Rs – Reduce, Recycle and Reuse and enhance environmental sustainability.

For details, please refer to Environmental, Social and Governance Report in this annual report.

COMPLIANCE WITH LAWS AND REGULATIONS

Compliance procedures are in place to ensure adherence to applicable laws, rules and regulations in particular, those have significant impact on the Group. During the Year, as far as the Company is aware, there was no material breach of or non-compliance with applicable laws and regulations by the Group that has a significant impact on the business and operations of the Group.

As a listed company in Hong Kong, the shares of the Company are listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), the Company continuously complies with the requirements under the Rules Governing the Listing of Securities of the Stock Exchange (the "Listing Rules") including the disclosure requirements, corporate governance provisions and Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") therein. Under the Securities and Futures Ordinance (Cap. 571) (the "SFO"), the Company is required to maintain a register of interests in shares and short positions and a register of directors' and chief executives' interests and short positions and is obliged to the disclosure requirement of inside information. The Board will monitor the Group's policies and practices on compliance with legal and regulatory requirements and such policies are regularly reviewed. Any changes in the applicable laws, rules and regulations are brought to the attention of relevant employees and relevant operation units from time to time.



FINANCIAL SUMMARY

A summary of the results, assets and liabilities of the Group for the last five years is set out on pages 219 to 220 of this report.

SHARE CAPITAL AND SHARE OPTIONS

Movements in the share capital and share options of the Company during the Year are set out in notes 33 and 37 to the consolidated financial statements.

RESERVES

Movements in the reserves of the Group during the Year are set out on page 94 of this report.

As at 31 December 2019, the Company's reserves available for distribution, calculated in accordance with the Companies Act 1981 of Bermuda (as amended), was HK\$127,443,000 (2018: HK\$105,887,000).

TAX RELIEF

The Company is not aware of any relief from taxation available to shareholders of the Company by reason of their holdings of Company's shares.

PRE-EMPTIVE RIGHTS

No pre-emptive rights exist under the Bye-laws of the Company (the "Bye-laws") and the laws of Bermuda, which would oblige the Company to offer new shares on a pro-rata basis to existing Shareholders.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

During the Year, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities.

EVENTS AFTER THE REPORTING PERIOD

Save as disclosed in note 49 to the consolidated financial statements, there is no other significant events occurred after the reporting date and up to the date of this report.

DIRECTORS

The Directors during the Year and up to the date of this report are:

EXECUTIVE DIRECTORS

Ms. Zhu Yufei ("Ms. Zhu") (*Joint Chairman and Chief Executive Officer*) (Appointed on 6 December 2019)
Mr. Cheung Wai Kuen ("Mr. Cheung") (*Joint Chairman*)
Mr. Lin Jiang ("Mr. Lin") (Re-designated from non-executive director to executive director on 14 February 2020)
Mr. Cheng Hau Yan ("Mr. Cheng") (*Deputy Chairman*) (Resigned on 10 October 2019)
Mr. Ye Jiong Xian ("Mr. Ye") (Resigned on 14 February 2020)
Mr. Li Runping ("Mr. Li") (Appointed on 16 April 2020)

NON-EXECUTIVE DIRECTORS

Mr. Wong Kin Man (Appointed on 16 August 2019)
Mr. Hou Kai Wen ("Mr. Hou") (Resigned on 14 February 2020)
Mr. Yang Zhibo ("Mr. Yang") (Appointed on 16 April 2020)

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Lam Chi Wing ("Mr. Lam")
Mr. Mai Yang Guang ("Mr. Mai")
Mr. Wong Yiu Kit, Ernest

Pursuant to Bye-law 87 of the Bye-laws, Mr. Cheung and Mr. Lam will retire from office by rotation at the forthcoming annual general meeting of the Company and being eligible, offer themselves for re-election as an executive Director, a non-executive Director and an independent non-executive director.

Pursuant to Bye-law 86(2) of the Bye-laws, Mr. Wong Kin Man was appointed as a non-executive Director with effect from 16 August 2019, Mr. Li was appointed as an executive Director and Mr. Yang was appointed as a non-executive Director with effect from 16 April 2020 respectively. Each of them shall retire from office as a Director at the Annual General Meeting and being eligible, each of them has offered himself for re-election as a non-executive Director, an executive Director and a non-executive Director at the Annual General Meeting.

SERVICE CONTRACTS OF DIRECTORS

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



DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS IN THE SECURITIES OF THE COMPANY AND ASSOCIATED CORPORATIONS

As at 31 December 2019, the interests and short positions of the Directors and the chief executive of the Company in the shares of the Company, underlying shares of the Company and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) or pursuant to section 352 of the SFO, to be entered into the register maintained by the Company, or otherwise required to notify the Stock Exchange pursuant to the Model Code are as follows:

| Name of Directors | Number of shares | | | Capacity | Note | Percentage of issued share capital |
|-------------------|--------------------------------|----------------------------------|-----------------|------------------------------------|------|------------------------------------|
| | Ordinary shares of the Company | Underlying shares of the Company | Total | | | |
| Mr. Cheung | 930,379,671 | – | 930,379,671 (L) | Interest of controlled corporation | 1 | 24.29% |

Remark:

The letter "L" denotes the long position in shares of the Company.

Note:

Mr. Cheung, through his controlled corporation, Champion Dynasty is deemed to be interested in 930,379,671 shares of the Company held by Champion Dynasty.

Save for disclosed above, as at 31 December 2019, none of the Directors, chief executives of the Company, nor their associates, had or was deemed to have any interest or short position in the shares of the Company, underlying shares of the Company or debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO), that was required to be recorded in the register maintained by the Company under section 352 of the SFO, or otherwise notified the Company and the Stock Exchange pursuant to the Model Code.

SUBSTANTIAL SHAREHOLDER'S INTEREST IN THE SECURITIES OF THE COMPANY

As at 31 December 2019, so far as are known to any Director or chief executive of the Company, the following party (other than the Directors or chief executive of the Company) was recorded in the register kept by the Company under section 336 of the SFO, or as otherwise notified the Company, as being directly or indirectly interested or deemed to be interested in 5% or more of the issued share capital of the Company:

| Name of substantial Shareholder | Number of ordinary shares of the Company | Capacity | Notes | Percentage of issued share capital |
|---|--|------------------|-------|---------------------------------------|
| Champion Dynasty | 930,379,671 (L) | Beneficial owner | 1 | 24.29% |
| Suntak Global Growth Fund SPC – Suntak Global Growth Fund Number One SP Limited | 500,000,000 (L) | Beneficial owner | 2 | 13.05% |
| Wang Aier | 400,000,000 (L) | Beneficial owner | 2 | 10.44% |

Remark:

The letter "L" denotes the long position in shares of the Company.

Notes:

- (1) Mr. Cheung is the sole director of Champion Dynasty and owned its entire issued capital.
- (2) According to the relevant Disclosure of Interest Notice ("DI Notice") in connection with the Company available on www.hkex.com.hk as at 31 December 2019.

All the interests stated above represent long position which included interests in shares of the Company and underlying shares of the Company. Save for disclosed above, as at 31 December 2019, the Directors were not aware of any persons (who were not directors or chief executive of the Company) who had an interest or short position in the shares of the Company, underlying shares or bonds of the Company or its associated corporations which would fall to be disclosed under Divisions 2 and 3 of Part XV of the SFO, or which would be required, pursuant to section 336 of the SFO, to be entered in the register referred to therein.



DIRECTORS' INTERESTS IN COMPETING BUSINESSES

During the Year, none of the Directors was interested in any business which competed or was likely to compete, either directly or indirectly, with the Group's businesses.

ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

There were no arrangements to which the Company, its subsidiaries, its holding company or its holding company's subsidiaries was a party to enable the Directors to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate during the Year.

DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS OF SIGNIFICANCE

Save for disclosed in the "Continuing Connected Transactions" below, no Director nor any entity connected with a Director is or was materially interested, either directly or indirectly, in any transaction, arrangement or contract of significance to the business of the Group or to which the Company or any of its subsidiaries, its parent company and the subsidiaries of its parent company was a party during or at the end of the Year.

CONTROLLING SHAREHOLDER'S INTERESTS IN CONTRACTS OF SIGNIFICANCE

Save for disclosed in the "Continuing Connected Transactions" below, no controlling Shareholder or its subsidiaries had a material interest, either directly or indirectly, in any contract of significance, whether for the provision of services or otherwise, to the business of the Group, to which the Company or any of its subsidiaries was a party during the Year. According to the DI Notice, as at 31 December 2019, the Company is not aware of the existence of any controlling shareholder (as defined under the Listing Rules).

CONTINUING CONNECTED TRANSACTION

On 5 October 2018, the Company, as lender, entered into a new facility agreement and agreed to renew a loan agreement with Champion Dynasty, as borrower, and Mr. Cheung Wai Kuen, one of the Company's controlling shareholders, as individual guarantor, for a period of three years from 19 November 2018 to 18 November 2021 in relation to a three-year revolving loan facility of up to HK\$200,000,000 to Champion Dynasty at an interest rate of 12% per annum (the "Loan Transaction"). The Loan Transaction was approved by the independent Shareholders at the special general meeting held on 19 November 2018. The loan is repayable on demand.

As at 31 December 2019, the outstanding balance of the loan to Champion Dynasty amounted to HK\$45,443,000 (2018: HK\$28,574,000). During the Year, the Group recognised an allowance for expected credit losses of HK\$27,000 (2018: reversal of expected credit losses of HK\$46,000).

REMUNERATION POLICIES, SHARE OPTION SCHEME AND SHARE AWARD SCHEME

As at 31 December 2019, the Group had around 1,913 employees excluding Directors (2018: around 200). The total staff cost excluding Directors' emoluments was approximately HK\$75,509,000 (2018: HK\$14,972,000) during the Year. The Remuneration Committee was set up for reviewing the Group's overall emolument policy and structure for all remuneration of the Directors and senior management of the Group, having regard to the Group's operating results, individual performance of the Directors and senior management and comparable market practices.

Remuneration package comprised salaries and year ended bonuses based on individual merits. The Company adopted a share option scheme on 11 October 2012 (the "2012 Scheme"). During the Year, no share option was granted and no share option was outstanding as at 31 December 2019. The company adopted a share award scheme on 30 August 2018 (the "2018 Scheme"). During the year, no share award was granted. Details of the 2012 Scheme and the 2018 Scheme are set out in notes 37 and 38 to the consolidated financial statements.

RETIREMENT BENEFIT SCHEMES

The Group operates the provident fund scheme as defined in the Mandatory Provident Fund Schemes Ordinance, Chapter 485 of the laws of Hong Kong (the "MPF Scheme") for the Year. The MPF Scheme is defined contribution scheme and the assets of the scheme are managed by its trustee.

The MPF Scheme is available to all employees aged 18 to below 65 and with at least 60 days of continuous service under the employment of the Group in Hong Kong. Contributions are made by the Group at 5% based on the staff's relevant income. The statutory maximum level of relevant income for contribution purpose is HK\$30,000 per month. Staff members are entitled to 100% of the Group's contributions together with accrued returns irrespective of their length of service with the Group, but the benefit is required by law to be preserved until the retirement age of 65.

The employees of the Group's subsidiaries which operate in Mainland China are required to participate in a central pension scheme operated by the local municipal government. These subsidiaries are required to contribute a percentage of its payroll costs to the central pension scheme. The contributions are charged to the profit or loss as they become payable in accordance with the rules of the central pension scheme.

Particulars of contribution to the retirement benefit scheme for the Year are set out in note 40 to the consolidated financial statements.

PERMITTED INDEMNITY PROVISION

According to the Bye-laws, among others, the Directors, acting in relation to any of the affairs of the Company shall be entitled to indemnified and secured harmless out of assets and profits of the Company from and against all, among others, actions, costs, charges, losses, damages and expenses which they or any of them shall or may incur or sustain. The Company has taken out and maintained directors' and officers' liability insurance throughout the Year, which provides appropriate cover the certain legal actions brought against the Directors and officers.



EQUITY-LINKED AGREEMENTS

During the Year, the WT Note and the Great Wall CB subsisted, however, they were redeemed in full at the end of 2019. For details of the WT Note and the Great Wall CB, see paragraph headed “Note Issued to Wan Tai Investments Limited and the Convertible Bond issued to China Great Wall AMC (International) Holdings Co., Ltd. (中國長城資產(國際)控股有限公司)” above in this report.

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 existed during the Year.

MAJOR CUSTOMERS AND SUPPLIERS

The aggregate turnover attributable to the Group's largest customer and five largest customers amounted for approximately 12% (2018: 6%) and 27% (2018: 22%) respectively, of the Group's total turnover for the Year.

The aggregate purchases attributable to the Group's largest supplier and five largest suppliers accounted for approximately 30% (2018: 17%) and 64% (2018: 62%) respectively, of the Group's total purchases for the Year.

None of the Directors, their close associates, or any Shareholders (which to the knowledge of the Directors owned more than 5% of the Company's issued shares) had beneficial interests in any of the Group's five largest customers and five largest suppliers during the Year.

RELATIONSHIPS WITH KEY STAKEHOLDERS

The Group's success also depends on the support from key stakeholders which comprise employees, customers, suppliers, regulators and Shareholders. Employees are regarded as the most important and valuable assets of the Group. The Group maintains a good relationship with its employees and did not experience any major difficulties in recruitment, nor did it experience any material loss in manpower or suffer from any material labour dispute during the Year. The Group also understands the importance of maintaining a good relationship with its suppliers and customers to meet its short-term and long-term goals. It enjoys good relationships with suppliers and customers and strives to take an active part in the communities where they operate.

PUBLIC FLOAT

Based on information that is publicly available to the Company and within the knowledge of the Directors at the latest practicable date prior to the issue of this annual report, the Company had maintained the prescribed amount of public float during the Year and up to the latest practicable date prior to the issue of this report as required under the Listing Rules.

AUDITORS

The consolidated financial statements for the Year were audited by HLB Hodgson Impey Cheng Limited whose term of office will expire upon the forthcoming annual general meeting. A resolution for the re-appointment of HLB Hodgson Impey Cheng Limited as the Independent Auditors for the subsequent year will be proposed at the forthcoming annual general meeting. The consolidated financial statements for the year ended 31 December 2015 to 31 December 2019 were audited by HLB Hodgson Impey Cheng Limited. There has been no other change in the Independent Auditor in any of the preceding three years.

On behalf of the Board

Aidigong Maternal & Child Health Limited

Zhu YuFei

Joint Chairman

Cheung Wai Kuen

Joint Chairman

Hong Kong, 11 May 2020

Profiles of Directors and Senior Management



EXECUTIVE DIRECTORS

Ms. Zhu Yufei, aged 56, is the founder of Shenzhen Aidigong, joined the Company as executive Director, joint chairman of the Board (“Joint Chairman”) and Chief Executive Officer in December 2019. Before the establishment of Aidigong, she was the head nurse of the delivery room at the Peking University Shenzhen Hospital* (北京大學深圳醫院產科). Ms. Zhu is the first batch of domestic entrepreneurs to develop postpartum care services. She currently is a member of the 6th CPPCC and the president of Shenzhen Maternal and Child Services Association* (深圳市母嬰服務業協會).

As disclosed in the announcement dated 25 January 2019 and the circular of the Company dated 26 July 2019, on 25 January 2019, the Company, Ms. Zhu and 深圳市愛心恒久遠資本管理合夥企業(有限合夥)(Shenzhen City Aixinhengjiuyuan Assets Management Partnership (Limited Partnership)*) (“Aixinhengjiuyuan”), entered into a subscription agreement pursuant to which the Company conditionally agreed to issue, and Ms. Zhu and Aixinhengjiuyuan conditionally agreed to subscribe for, in aggregate of not more than 264,099,966 ordinary shares of the Company. Ms. Zhu and her sibling in aggregate own approximately 76.46% of the equity interest of Aixinhengjiuyuan, and Ms. Zhu is the executive partner of Aixinhengjiuyuan as at the Latest Practicable Date.

Mr. Cheung Wai Kuen, aged 46, joined the Company as executive Director in August 2012 and has been appointed as the chairman of the Board since September 2012 and he became a Joint Chairman upon Ms. Zhu Yufei’s appointment as a Joint Chairman. He is also a director of certain subsidiaries of the Group. Mr. Cheung has 20 years of operational experience in the healthcare industry as well as rich industry resources. He has successfully found a number of hospitals and health management center. Mr. Cheung is a director of Champion Dynasty, a substantial shareholder of the Company. Mr. Cheung was retired from Greentech Technology International Limited (Stock Code: 195) as an executive director since 31 May 2019.

Mr. Lin Jiang, aged 55, was appointed as a non-executive Director on 1 February 2013 and was re-designated as an Executive Director on 14 February 2020. He has over 20 years of experience in Economic and Financial areas. He obtained a Bachelor degree and a Master degree of Economics from Sun Yat-sen University, a Doctor degree of Economics from Jinan University, and finished his postdoctoral research on Applied Economics in Zhongnan University of Economics and Law.

Mr. Lin is currently an Economics professor and a doctoral tutor in Lingnan College of Sun Yat-sen University. Moreover, he serves as an instructional committee member of Public Financial Majors of Higher Education Institutes of the Ministry of National Education* (國家教育部高等學校財政學類教學指導委員會), an adjunct research fellow for Cross-Strait Relation Research Center* (海峽兩岸關係研究中心特約研究員), a vice president of Guangdong Public Finance Society* (廣東省財政學會), an advisory member of Guangzhou Municipal Public Finance Experts Committee* (廣州市財政專家諮詢委員會), a consultation expert for Decision Making, Guangzhou Municipal Government, 4th session (廣州市人民政府第四屆決策諮詢專家) and a consultation expert of the Budget Work Committee, the Standing Committee of Guangzhou Municipal People’s Congress, 15th session (廣州市第十五屆人大常委會預算工作委員會諮詢專家). In addition, he was the then a deputy general manager for the financial division of China Merchants Group Limited.

Profiles of Directors and Senior Management *(Continued)*

EXECUTIVE DIRECTORS *(CONTINUED)*

Mr. Li Runping, aged 38, was appointed as executive director on 16 April 2020. He obtained a bachelor's degree in accounting from the International Business School, Nankai University (南開大學國際商學院) in June 2004, and a master's degree in business administration from Nankai University (南開大學) in June 2011. Mr. Li has over ten years of experience in the financial industry. He served as senior management in a number of corporations and was responsible for industry research, investment and matters relating to mergers and acquisitions.

NON-EXECUTIVE DIRECTORS

Mr. Wong Kin Man, aged 68, was appointed as non-executive director on 16 August 2019. He has extensive experience in brand marketing and public relations management. Mr. Wong previously served as the deputy general manager of China Division of Crocodile Garments Limited (stock code: 122), a company listed on the Main Board of the Stock Exchange which principally engaged in the manufacture, retail and wholesale of fashions in Hong Kong, Macau and mainland China. Subsequently, Mr. Wong served at Hong Kong Seibu Holdings (China) Limited, a subsidiary of Dickson Concepts (International) Limited (stock code: 113), a company listed on the Main Board of the Stock Exchange that is principally engaged in sale of luxury goods and securities investment, where he was responsible for store expansion, management coordination, marketing, corporate relations and business development matters of the relevant company. Mr. Wong then served as the chief operating officer of Hong Kong Investment Holdings Limited, where he was responsible for the overall planning and development of a shopping mall in Tsim Sha Tsui, Hong Kong. Following that, Mr. Wong served as general manager of 太陽新天地購物中心 (Happy Valley Mall), one of the landmark shopping malls in Tianhe District, Guangzhou, China.

Mr. Wong obtained a diploma in business management from Jinan University, China in 1985.

Mr. Yang Zhibo, aged 34, was appointed as non-executive director on 16 April 2020. He graduated with a bachelor's degree in administrative management from Xi'an Jiaotong University (西安交通大學) in July 2008, and obtained a master's degree in finance from Anhui University (安徽大學) in June 2013. Mr. Yang served as senior management in a number of corporations, where he was responsible for corporate audit, risk management and investment management, and has more than five years of relevant experience.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Mai Yang Guang, aged 55, joined the Company as INED in February 2013. He is also the chairman of the nomination committee (the "Nomination Committee") of the Company, the chairman of the remuneration committee (the "Remuneration Committee") of the Company and a member of the audit committee (the "Audit Committee") of the Company. Mr. Mai has over 20 years of experience in enterprise management in the PRC. He graduated from Thermal Engineering Department of Northeastern University in the PRC. Mr. Mai is the executive director and general manager of Shenzhen Xinyinji Enterprise Development Limited* (深圳市新銀基實業發展有限公司) and the chairman of board of directors and general manager of Shenzhen Haojiahua Investment Limited* (深圳市好嘉華投資有限公司).



INDEPENDENT NON-EXECUTIVE DIRECTORS *(CONTINUED)*

Mr. Wong Yiu Kit, Ernest, aged 52, joined the Company as INED in September 2017. He is also the chairman of the Audit Committee, and a member of the Remuneration Committee and the Nomination Committee. Mr. Wong has over 25 years of experience in venture capital, corporate finance, business development and general management. He is the president and group chief financial officer of KVB Kunlun Holdings Limited ("KVB"). Mr. Wong is as an independent non-executive director of Renheng Enterprise Holdings Limited (Stock Code: 3628), HongDa Financial Holding Ltd (Stock Code: 1822) and Progressive Path Group Holdings Limited (Stock Code: 1581), each of the shares of such companies are listed on the Stock Exchange. Mr. Wong also served several positions at Adamas Finance Asia Limited, a company listed on the London Stock Exchange (LSE Stock Code: ADAM), including its executive director, chief financial officer and non-executive director. Mr. Wong also served as the executive director, the chief financial officer and the company secretary of KVB Kunlun Financial Group Limited (Stock Code: 6877) and an independent non-executive director of China Regenerative Medicine International Limited (Stock Code: 8158) and Legend Strategy International Holdings Group Company Limited (Stock Code: 1355).

Mr. Wong obtained a a master's degree in management from Saïd Business School of Oxford, a bachelor's degree in business administration from The University of Hong Kong, a master's degree of science in investment management from The Hong Kong University of Science and Technology and a master's degree of science in electronic engineering from the Chinese University of Hong Kong. Mr. Wong was admitted as a fellow member of the Association of Chartered Certified Accountants, the Hong Kong Institute of Certified Public Accountants and the Institute of Chartered Accountants in England and Wales. He was admitted as a chartered financial analyst of the Institute of Chartered Financial Analysts. He is a current member of the Hong Kong Securities Institute. He is also acting the deputy chairman of the HKU Convocation, the court member of The University of Hong Kong, and a Vice Chairman of the Association of Chartered Certified Accountants Hong Kong.

Mr. Lam Chi Wing, aged 40, joined the Company as INED in March 2016. He is also a member of the Remuneration Committee, the Nomination Committee and the Audit Committee. Mr. Lam obtained a Bachelor of Business Administration degree in Accounting & Finance at the University of Hong Kong in 2003. Subsequently, Mr. Lam obtained a Master of Science degree in Knowledge Management at the Hong Kong Polytechnic University in 2006 and a Master of Business Administration degree at the Chinese University of Hong Kong in 2010. Mr. Lam is currently a doctoral candidate in Global Creative Industries of the University of Hong Kong.

Mr. Lam served at PricewaterhouseCoopers in 2003. Mr. Lam subsequently joined Li & Fung Group, which he served as Group Chief Representative and General Manager, Southern China of Li & Fung Development (China) Limited prior to his departure. Mr. Lam currently serves as director or consultant at a number of companies in Hong Kong and the PRC.

Profiles of Directors and Senior Management (Continued)

INDEPENDENT NON-EXECUTIVE DIRECTORS (CONTINUED)

Mr. Lam is a member of the Twelfth Guangdong Committee of the Chinese People's Political Consultative Conference* (中國人民政治協商會議第十二屆廣東省委員), and the Eleventh & Twelfth Zhongshan Committee of the Chinese People's Political Consultative Conference* (中國人民政治協商會議第十一屆、十二屆中山市委員), a member of the Committee of the Chinese Association of Hong Kong & Macao Studies* (全國港澳研究會港區特邀代表), a member of the Expert Committee to the Second Ministry of Commerce Advisory Committee for Economic & Trade Policy* (第二屆國家商務部經貿政策諮詢委員會專家), a Vice Chairman of the Hong Kong Guangdong Youth Association* (香港廣東青年總會), Executive Vice Chairman of the Hong Kong Zhongshan Youth Association* (香港中山青年協會), a member of The Hong Kong Professionals And Senior Executives Association (香港專業及資深行政人員協會), a member of The Y. Elites Association Limited (香港菁英會成員) and a member of the Chinese Academy of Governance (HK) Industrial and Commercial Professionals Alumni Association Limited* (中國國家行政學院(香港)工商專業同學會成員). Mr. Lam served as a part-time member of the Central Policy Unit of the Government of Hong Kong from 2011 to 2012, and is currently serving as an advisory committee of the Sustainable Agricultural Development Fund of the Government of Hong Kong, a committee member of the Appeal Panel (Housing) of the Government of Hong Kong, and a committee member of China Commerce & Trade Advisory Committee of the Hong Kong Trade and Development Council (香港貿易發展局內地商貿諮詢委員會).

Mr. Lam is currently the member of the China Commerce & Economy Society* (中國商業經濟學會) and the Vice Chairman of the Youth Division of China Commerce & Economy Society* (中國商業經濟學會青年分會), Vice Chairman of the Guangdong Society of Commercial Economy* (廣東省商業經濟學會), Vice Chairman of the Promotion of Cooperation between Guangdong, Hong Kong & Macao* (廣東省粵港澳合作促進會), Deputy Dean of the Guangdong Asia Pacific E-Commerce Institute* (廣東亞太電子商務研究院), Executive Deputy Secretary-General of the Society of Guangdong Logistics and Supply Chain* (廣東省物流與供應鏈學會).

Mr. Lam is currently an Adjunct Professor at each of School of Business of the Renmin University of China* (中國人民大學商學院), the Business School of the Hong Kong University of Science and Technology* (香港科技大學商學院), School of Management at Zhejiang University* (浙江大學管理學院), the School of Economics and Management at the Chinese University of Hong Kong, Shenzhen* (香港中文大學(深圳)經管學院), a part-time researcher at Guangdong University of Finance and Economics' Research Institute of Circulation Economy* (廣東財經大學流通經濟研究所), a special researcher at each of Jinan University's Modern Distribution Research Centre* (暨南大學現代流通研究中心) and Shenzhen University's Center for Basic Laws of Hong Kong and Macau Special Administrative Regions* (深圳大學港澳基本法研究中心).

Mr. Lam also serves as an independent non-executive director, chairman of the remuneration committee, member of the nomination committee and the audit committee of Wai Hung Group Holdings Limited (Stock Code: 3321), a company listed on the Main Board of the Stock Exchange.



SENIOR MANAGEMENT

Various aspects of the business and operations of the Group are respectively under direct responsibilities of the executive Directors who are regarded as the senior management of the Group.

COMPANY SECRETARY

Mr. Wong Wing Cheung, joined the Group in September 2017 and was appointed as the financial controller of the Group, the company secretary (the “Company Secretary”) and the authorized representative of the Company in December 2017. Mr. Wong is a Practicing Certified Public Accountant certified under the Hong Kong Institute of Certified Public Accountants. He holds a bachelor degree in business administration in accountancy from City University of Hong Kong. Mr. Wong has over 14 years of experience in initial public offering, corporate acquisitions and restructuring, due diligence, audit and internal control. From 2005 to 2014, Mr. Wong held various positions in several audit firms, providing audit services in China and Hong Kong to various corporations. Prior to joining the Company, Mr. Wong has set up a consultancy firm for providing advisory services on financial, tax, internal control and daily operation of listed companies.

CHANGES TO INFORMATION IN RESPECT OF DIRECTORS

Save as disclosed in this annual report, there was no change to any of the information required to be disclosed in relation to any Director pursuant to paragraphs (a) to (e) and (g) of rule 13.51(2) of the Listing Rules for the Year.

Corporate Governance Report

OBJECTIVE

The Board together with the Group is committed to maintain high standards of corporate governance so as to ensure high transparency and protection of the Shareholders' interests in general. The Board endeavours to ensure effective self-regulatory practices, to maintain sound internal control system and to absorb high calibre members to the Board.

The purpose of this Corporate Governance Report is to present to the Shareholders how the Company has applied the principles in the Corporate Governance Code (the "CG Code") under Appendix 14 to the Listing Rules throughout the Year.

BOARD OF DIRECTORS

The Board is responsible for directing the Group, formulating overall strategy, monitoring operational and financial performance of the Group and overseeing the performance of the management of the Group (the "Management"). Each Director acts in good faith for the best interest of the Company. The Directors are collectively and individually responsible to the Company for the manner in which the affairs of the Company are managed, controlled and operated. They had devoted sufficient time and attention to the Company's affairs during the Year.

STRUCTURE

The Board currently comprises three executive Directors, one non-executive Directors and three INEDs. The INEDs represent more than one-third of the Board. The members of the Board during the year and as at the date of this report as follows:

EXECUTIVE DIRECTORS

Ms. Zhu Yufei (*Joint Chairman and Chief Executive Officer*) (Appointed on 6 December 2019)
Mr. Cheung Wai Kuen (*Joint Chairman*)
Mr. Lin Jiang (Re-designated from non-executive director to executive director on 14 February 2020)
Mr. Cheng Hau Yan (*Deputy Chairman*) (Resigned on 10 October 2019)
Mr. Ye Jiong Xian (Resigned on 14 February 2020)
Mr. Li Runping (Appointed on 16 April 2020)

NON-EXECUTIVE DIRECTORS

Mr. Wong Kin Man (Appointed on 16 August 2019)
Mr. Hou Kai Wen (Resigned on 14 February 2020)
Mr. Yang Zhibo (Appointed on 16 April 2020)

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Lam Chi Wing
Mr. Mai Yang Guang
Mr. Wong Yiu Kit, Ernest



BOARD OF DIRECTORS *(CONTINUED)*

STRUCTURE (CONTINUED)

The Directors' biographies are available on the Company's website. There is no personal relationship among members of the Board.

At least one of the INEDs has appropriate professional qualification as required by the Stock Exchange. The Company has received from each INED an annual confirmation of his independence pursuant to Rule 3.13 of the Listing Rules. The Company considers that all of the INEDs are independent.

The Directors (including the non-executive Directors and the INEDs) were appointed for specific terms.

Pursuant to Bye-law 87 of the Bye-laws, Messers Mr. Cheung Wai Kuen and Mr. Lam Chi Wing will retire from office by rotation, and being eligible, will offer themselves for re-election at the relevant annual general meetings.

Pursuant to Bye-law 86(2) of the Bye-laws, Mr. Wong Kin Man was appointed as a non-executive Director with effect from 16 August 2019, Mr. Li Runping was appointed as an executive Director and Mr. Yang Zhibo was appointed as a non-executive Director with effect from 16 April 2020 respectively. Each of them shall retire from office as a Director at the Annual General Meeting and being eligible, each of them has offered himself for re-election as a non-executive Director, an executive Director and a non-executive Director at the Annual General Meeting.

Every Director is therefore subject to retirement by rotation either under the Bye-laws or voluntarily, and eligible for re-election at the annual general meetings of the Company at least once every three years.

ASSISTANCE TO DIRECTORS IN DECISION MAKING

Throughout their period in office, the Directors have been informed of the Group's businesses, the competitive and regulatory environments in which it operates and other changes affecting the Group and the industries it operates in as a whole. They have also been advised on appointment of their legal and other duties and obligations as directors of a listed company and updated on changes to the legal and governance requirements of the Group and upon themselves as the Directors.

The Directors are given access to independent professional advice at the Company's expense, when they deem it is necessary in order for them to carry out their responsibilities from time to time.

To enhance the Directors' consciousness on the importance of the directors' duties under common law (which is also generally applicable to Bermuda where the Company was incorporated) and to comply with the requirements of the Companies Ordinance (Cap. 622, Laws of Hong Kong), "A Guide on Directors' Duties" in which the general principles a director should follow in the performance of his functions and exercise of his powers was distributed to the Directors.

BOARD OF DIRECTORS *(CONTINUED)*

CONDUCT OF MEETINGS

The Directors are consulted and properly briefed for matters to be included in the meetings' agenda. The Board is supplied with relevant information as well as reports relating to operational and financial performance of the Group before each regular Board meeting. At least 14 days' notice of a regular Board's meeting is given to all Directors to provide them with the opportunity to attend the meeting. Board papers are dispatched to all Directors at least 3 days before the meetings to ensure that they have sufficient time to review the papers and will be adequately prepared for the meeting. The Management is invited to attend the meetings to address to the Board members' queries. This enables the Board to have pertinent data and insight for reaching a comprehensive and informed evaluation as part of the Board decision-making process.

The chairman of the meetings has delegated the responsibility to the Company Secretary for drawing up and approving the meeting's agenda for each Board's meeting, taking into account of any matter proposed by each Director for inclusion in the agenda.

The proceedings of the Board at its meetings are generally monitored by the chairman of the meetings who would ensure that sufficient time is allocated for discussion and consideration of each item on the agenda. Equal opportunities are given to each Director to express his views and concerns.

Each Director has to declare his interest and to abstain from voting on any Board resolution in which he or any of his associates has a material interest pursuant to the Bye-laws and the laws of Bermuda.

All Directors have full access to the advice and services of the Company Secretary to ensure the Board procedures, rules and regulations are followed. Draft and final versions of minutes of each Board meeting in sufficient details are sent to the Directors for comments and records within reasonable time after the meeting is held. The minutes of Board's meetings and of the Board committees' meetings are kept by the Company Secretary, which are open for inspection by the Directors on reasonable notice.

Nineteen Board meetings were held for the Year. The Company Secretary and the Management had attended the Board's meetings to report matters arising from corporate governance, risk management, statutory compliance, accounting, finance and business.



BOARD OF DIRECTORS (CONTINUED)

CONDUCT OF MEETINGS (CONTINUED)

Individual attendance of each Director at the meetings for the Year was as follows:

| Directors | Number of Board meetings attended/held (Percentage of attendance in total) | Number of general meetings attended/held (Percentage of attendance in total) |
|---|---|---|
| Executive Directors | | |
| Ms. Zhu Yufei (<i>Joint Chairman and CEO</i>) (Appointed on 6 December 2019) (<i>Note 1</i>) | 3/3 (100%) | N/A |
| Mr. Cheung Wai Kuen (<i>Joint Chairman</i>) | 19/19 (100%) | 3/3 (100%) |
| Mr. Lin Jiang (Re-designated from non-executive director to executive director on 14 February 2020) | 19/19 (100%) | 1/3 (33.3%) |
| Mr. Cheng Hau Yan (<i>Deputy Chairman</i>) (Resigned on 10 October 2019) (<i>Note 2</i>) | 12/13 (92.3%) | 1/2 (50%) |
| Mr. Ye Jiong Xian (Resigned on 14 February 2020) | 19/19 (100%) | 1/3 (33.3%) |
| Mr. Li Runping (Appointed on 16 April 2020) (<i>Note 3</i>) | N/A | N/A |
| Non-executive Directors | | |
| Mr. Wong Kin Man (Appointed on 16 August 2019) (<i>Note 4</i>) | 12/12 (100%) | 0/2 (0%) |
| Mr. Hou Kai Wen (Resigned on 14 February 2020) | 19/19 (100%) | 0/3 (0%) |
| Mr. Yang Zhibo (Appointed on 16 April 2020) (<i>Note 5</i>) | N/A | N/A |
| Independent Non-executive Directors | | |
| Mr. Lam Chi Wing | 19/19 (100%) | 1/3 (33.3%) |
| Mr. Mai Yang Guang | 19/19 (100%) | 0/3 (0%) |
| Mr. Wong Yiu Kit, Ernest | 19/19 (100%) | 1/3 (33.3%) |

Note 1: During Ms. Zhu's term of service in 2019, three Board meetings were held and no general meeting was held.

Note 2: During Mr. Cheng's term of service in 2019, thirteen Board meetings were held and two general meetings were held.

Note 3: Mr. Li Runping was appointed on 16 April 2020 and thus he did not attend any board meeting and general meeting.

Note 4: During Mr. Wong Kin Man's term of service in 2019, twelve Board meetings were held and two general meetings were held.

Note 5: Mr. Yang Zhibo was appointed on 16 April 2020 and thus he did not attend any board meeting and general meeting.

BOARD OF DIRECTORS *(CONTINUED)*

WORK PERFORMED

During the Year, besides attending the Board's meetings to consider and make decision on corporate governance, risk management, statutory compliance, accounting, finance and business matters, the Directors had brought independent opinion and judgement on the Company's strategy, performance and standards of conduct; had taken the leave where potential conflicts of interests arose; had served on Board's committees; had ensured that the Board maintained high standards of financial and other mandatory reporting; had carried out reviews on matters reported by the Board's committees, and had provided adequate checks and balance to safeguard the interests of the Shareholders as a whole and the Company in general.

During the Year, the INEDs had actively participated in the Board's meetings, brought independent judgements and given their comments to the information or reports submitted to the meetings.

Besides holding the Board's or committees' meetings, in order to make timely decision and ensure effective implementation of the Company's policies and practices, the Board had also adopted written resolutions signed by all Directors for making decisions on corporate affairs from time to time.

As part of the continuing process on supervising the Company's affairs, the Directors, acting through by the Audit Committee, had reviewed the adequacy of resources (of the Company's accounting and financial reporting function), qualifications and experience of the Directors, and their training programmes and budget during the Year.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code as a code of conduct regarding securities transactions by Directors. Having made specific enquiry of all Directors, all Directors confirmed that they had complied with the required standards set out in the Model Code regarding securities transaction throughout the Year.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

Under the code provision A.2.1 of the CG Code, the roles of the Chairman and the CEO should be separate and performed by different individuals. Ms. Zhu Yufei was appointed as an executive Director, a joint chairman of the Board and the chief executive officer on 6 December 2019. Ms. Zhu currently holds both positions. Ms. Zhu has been responsible for the overall management of the Group, including operational and business development, which arrangement may be able to improve the efficiency of the Group's decision making and execution process. The Company has in place certain appropriate check-and-balance mechanism through the Board, the INEDs and the Board committees. The Board considers that Ms. Zhu is the suitable candidate to hold both positions and such arrangement will be beneficial to the Group.



BOARD COMMITTEES

The Board has established the Audit Committee, the Nomination Committee and the Remuneration Committee with defined roles and terms of reference.

AUDIT COMMITTEE

STRUCTURE

The Audit Committee has been established with the role to assist the Board in establishing formal and transparent arrangements for considering how it will apply the financial reporting and the internal control principles and for maintaining an appropriate relationship with the Independent Auditor. It acts in an advisory capacity and makes recommendations to the Board. The terms of reference of the Audit Committee were revised and adopted by the Board on 29 March 2019 and effective on 1 January 2019.

All the Audit Committee's members possess diversified industry experience. The Audit Committee comprises all INEDs, namely:

Mr. Wong Yiu Kit, Ernest (*Chairman*)

Mr. Lam Chi Wing

Mr. Mai Yang Guang

FUNCTION

The Audit Committee's terms of reference can be found on the Company's website and the website of the Stock Exchange.

The major duties of the Audit Committee are summarised below:

- (i) to make recommendations to the Board on the appointment, re-appointment and removal of the Independent Auditor, review and monitor their independence and objectivity as well as the effectiveness of the audit process;
- (ii) to monitor the integrity of the interim and annual consolidated financial statements, reports and accounts and quarterly reports (if applicable) of the Company, and to review any significant financial reporting judgements contained in them; and
- (iii) to review and ensure the effectiveness of the Company's financial control, internal control and risk management systems.

CONDUCT OF MEETINGS

The Audit Committee shall meet with the Independent Auditor at least twice each year. At least 7 days' notice has to be given prior to any meeting being held unless all members of Audit Committee unanimously waive such notice. The Company prepares and delivers an information memorandum that includes all relevant information about the meetings to the Audit Committee's members at least 3 days prior to such meetings. During the Year, the Audit Committee's members reviewed the information memorandum with due care and discussed with the financial controller of the Group (who is also the Company Secretary) and other Management (if necessary) during the meetings.

BOARD COMMITTEES *(CONTINUED)*

AUDIT COMMITTEE *(CONTINUED)*

CONDUCT OF MEETINGS *(CONTINUED)*

During the Year, the Audit Committee held two meetings with the presence of the Management. Minutes drafted by the Company Secretary were circulated to the Audit Committee's members for comments within a reasonable time after each meeting. Executed minutes were kept by the Company Secretary and copies of the minutes were sent to the Audit Committee's members for records.

Individual attendance of each committee's member at the meetings for the Year was as follows:

| Members | Number of meetings attended/held (Percentage of attendance in total) |
|--|---|
| Mr. Wong Yiu Kit, Ernest <i>(Chairman)</i> | 2/2 (100%) |
| Mr. Lam Chi Wing | 2/2 (100%) |
| Mr. Mai Yang Guang | 2/2 (100%) |

WORK PERFORMED

The works performed by the members of Audit Committee in the Year were summarised below:

- (i) reviewed and considered the Group accounts and financial statements for the year ended 31 December 2018, and interim report of 2019;
- (ii) reviewed, discussed and agreed with the Independent Auditor in respect of the audit fee for the Year; the terms of the engagement letters for the Year; and the nature, scope of audit and reporting obligations for the Year;
- (iii) reviewed and assessed the adequacy and effectiveness of the Group's financial reporting and controls, internal control procedures and risk management systems, and the Group's internal audit function;
- (iv) reviewed the corporate governance practices and monitored the progress of compliance of the CG Code;
- (v) carried out annual review on the continuing connected transactions of the Company (including those fallen outside Rule 14A.33 of the Listing Rules and not required to be made public (if any)) and their financial implication in their capacity as INEDs;
- (vi) reviewed the overall performance of the Group for the year ended 31 December 2019;
- (vii) reviewed the adequacy of resources, qualifications and experience of the staff in accounting and financial reporting function, and the training programmes and budget; and
- (viii) reported to the Board the works performed by the Audit Committee during the Year, presented its findings and made recommendations for the Board's consideration.



BOARD COMMITTEES (CONTINUED)

AUDIT COMMITTEE (CONTINUED)

CONDUCT OF MEETINGS (CONTINUED)

Overall, the Audit Committee was satisfied with the condition of the Company, including the corporate governance practices, internal control system, the conduct of the continuing connected transactions and adequacy of resources, qualifications and experience of the staff in accounting and financial reporting function, and the training programmes and budget.

After the reporting period, the Audit Committee reviewed the Group's accounts and the draft consolidated financial statements for the Year.

NOMINATION COMMITTEE

STRUCTURE

The Nomination Committee has been established since 1 April 2012 with the role to lead the process and make recommendations for appointments to the Board, whether as additional appointment or to fill up the casual vacancy of directorship as and when they arise, in the light of challenges and opportunities facing by the Company, as well as business development and requirements of the Company and to take approved action if within delegated authority. The terms of reference of the Nomination Committee were revised and adopted by the Board on 29 March 2019 and effective on 1 January 2019.

The Nomination Committee comprises all INEDs, namely:

Mr. Mai Yang Guang (*Chairman*)

Mr. Lam Chi Wing

Mr. Wong Yiu Kit, Ernest

FUNCTION

The major duties of the Nomination Committee are summarised below:

- (i) to review the structure, size, composition and diversity (including evaluation of the skills, knowledge, professional experience, cultural and education background, gender and age of the Board members) of the Board at least annually and make recommendation on any proposed change to the Board to complement the Company's corporate strategy;
- (ii) to identify individual suitably qualified to become Board members and select or make recommendations to the Board on the selection of individual nominated for directorship;
- (iii) to assess the independence of INEDs;
- (iv) to make recommendations to the Board on the appointment or re- appointment of Directors and succession planning for Directors, in particular the Chairman, the Deputy Chairman and the chief executive;
- (v) to consult the Remuneration Committee about its remuneration proposals for the candidate to be appointed as a Director; and

BOARD COMMITTEES *(CONTINUED)*

NOMINATION COMMITTEE *(CONTINUED)*

FUNCTION *(CONTINUED)*

- (vi) to develop and maintain a policy for the nomination of Board members which includes the nomination procedures and the process and criteria adopted by the Nomination Committee to identify, select and recommend candidates for directorship, and to review periodically and disclose in the corporate governance report annually and the progress made towards achieving the objectives set out in the policy. The Nomination Committee should ensure that the selection process is transparent and fair, and that it considers a board range of candidates who are outside the Board's circle of contacts and in accordance with the Company's diversity policy.

The Nomination Committee's terms of reference can be found on the Company's website and the website of the Stock Exchange.

The Nomination Committee would consult the executive Directors about its proposals on appointment of other Directors and seek internal and external professional advices if considered necessary.

CONDUCT OF MEETINGS

During the Year, the Nomination Committee held three meetings to reviewing the qualifications of directors, evaluate the structure, number and composition of the board of the director and to consider and approve the nomination of the executive Director and non-executive Director for the Year.

Individual attendance of each committee's member at the meeting for the Year was as follows:

| Members | Number of meetings attended/held (Percentage of attendance in total) |
|--------------------------------------|---|
| Mr. Mai Yang Guang <i>(Chairman)</i> | 3/3 (100%) |
| Mr. Lam Chi Wing | 3/3 (100%) |
| Mr. Wong Yiu Kit, Ernest | 3/3 (100%) |

The Nomination Committee shall meet at least once each year. At least 7 days' notice has been given prior to any meeting being held unless all members of the Nomination Committee unanimously waive such notice.

The Company prepared and delivered meeting papers that include all relevant information about the meeting to the Nomination Committee's members at least 3 days prior to such meeting. Minutes drafted by the Company Secretary were circulated to the Nomination Committee's members for comments within a reasonable time after this meeting. Executed minutes were kept by the Company Secretary and copies of the minutes were sent to the Nomination Committee's members for records.

The Nomination Committee reviewed the diversity of the Board against the measurable objectives in accordance with the diversity policy of the Board.



BOARD COMMITTEES *(CONTINUED)*

NOMINATION COMMITTEE (CONTINUED)

BOARD DIVERSITY POLICY

The Company has adopted the Board Diversity Policy. It aims to set out the approach to achieve diversity on the Board of the Company. To achieve a sustainable and balanced development, the Company encourages increasing diversity at the Board level as an essential element in supporting the attainment of its strategic objectives and its sustainable development. In designing an appropriate composition of the Board, the diversity of the Board has been considered from a number of factors, including but not limited to gender, age, cultural and educational background, professional experience, skills, knowledge and length of service. All Board appointments will be based on meritocracy and candidates will be considered against objective criteria, having due regard for the benefits of diversity on the Board. During the Year, we have appointed a female Director, Ms. Zhu, to improve gender diversity at the Board level, we will continue to apply the principle of appointments based on merits with reference to our diversity policy as a whole.

NOMINATION PROCEDURES, PROCESS AND CRITERIA

The Nomination Committee leads the process and makes recommendations for appointments to the Board, whether as additional appointment or to fill up the casual vacancy of directorship as and when they arise, in the light of challenges and opportunities facing the Company, as well as business development and requirements of the Company. In evaluating and selecting candidate(s) for directorship, the Nomination Committee considers the character and integrity; skills and expertise; professional and educational background; potential time commitment for the Board and/or its committee responsibilities; and the elements of the Board's diversity policy etc. The Nomination Committee makes recommendation to the Board to appoint the appropriate person among the candidates nominated for directorship. Suitable candidate(s) shall be appointed by the Board in accordance with the Bye-laws and the Listing Rules.

CONTINUOUS PROFESSIONAL DEVELOPMENT OF THE DIRECTORS

During the Year and up to the date of this report, all Directors participated the following continuous professional development (CPD) to develop and refresh their knowledge and skills in compliance with code provision A.6.5 of the CG Code to ensure that their contribution to the Board remains informed and relevant. The Company is responsible for arranging and finding suitable training, placing an appropriate emphasis on the roles, functions and duties of the Directors.

BOARD COMMITTEES *(CONTINUED)*

NOMINATION COMMITTEE *(CONTINUED)*

CONTINUOUS PROFESSIONAL DEVELOPMENT OF THE DIRECTORS *(CONTINUED)*

| Directors | Type of training Directors <i>(See Remarks)</i> |
|---|--|
| Executive Directors | |
| Ms. Zhu Yufei <i>(Joint Chairman and CEO)</i> (Appointed on 6 December 2019) | B |
| Mr. Cheung Wai Kuen <i>(Joint Chairman)</i> | B |
| Mr. Lin Jiang (Re-designated from non-executive director to executive director on 14 February 2020) | C |
| Mr. Cheng Hau Yan <i>(Deputy Chairman)</i> (Resigned on 10 October 2019) | B |
| Mr. Ye Jiong Xian (Resigned on 14 February 2020) | A, B |
| Mr. Li Runping (Appointed on 16 April 2020) | N/A |
| Non-executive Directors | |
| Mr. Wong Kin Man (Appointed on 16 August 2019) | A, B |
| Mr. Hou Kai Wen (Resigned on 14 February 2020) | A, B |
| Mr. Yang Zhibo (Appointed on 16 April 2020) | N/A |
| Independent Non-executive Directors | |
| Mr. Lam Chi Wing | A, B, C |
| Mr. Mai Yang Guang | B |
| Mr. Wong Yiu Kit, Ernest | A, B |

Remarks:

A: attending seminars and/or training

B: reading Listing Rules, updates, articles and/or materials etc.

C: preparing and/or giving seminar presentations

REMUNERATION COMMITTEE

STRUCTURE

The Remuneration Committee has been established with the role to assist the Board in reviewing and determining the framework or policy for remuneration packages of the Directors and the senior management of the Group, overseeing any major changes in employee benefit structures and considering other topics as defined by the Board.

The Remuneration Committee comprises all INEDs, namely:

Mr. Mai Yang Guang *(Chairman)*

Mr. Lam Chi Wing

Mr. Wong Yiu Kit, Ernest



BOARD COMMITTEES *(CONTINUED)*

REMUNERATION COMMITTEE *(CONTINUED)*

FUNCTION

The major duties of the Remuneration Committee are summarised below:

- (i) to set, review and make recommendations to the Board for approving the Group's overall remuneration policy and strategy;
- (ii) to set, review and approve performance-based remuneration and individual remuneration packages for the executive Directors and the Management including terms and conditions of employment as well as compensation payable due to loss or termination of office, and dismissal or removal for misconduct; and
- (iii) to make recommendations to the Board on the remuneration of non-executive Directors and INEDs.

The Remuneration Committee's terms of reference can be found on the Company's website and the website of the Stock Exchange.

The Remuneration Committee would consult the Chairman, the Deputy Chairman and/or the CEO about its proposals on remuneration of other executive Directors and seek internal and external professional advices if considered necessary.

CONDUCT OF MEETINGS

During the Year, the Remuneration Committee held two meetings to consider and approve the annual remuneration of the Directors for the Year.

Individual attendance of each committee's member at the meeting for the Year was as follows:

| Members | Number of meetings attended/held (Percentage of attendance in total) |
|--|---|
| Mr. Mai Yang Guang (<i>Chairman</i>) | 2/2 (100%) |
| Mr. Lam Chi Wing | 2/2 (100%) |
| Mr. Wong Yiu Kit, Ernest | 2/2 (100%) |

The Remuneration Committee shall meet at least once each year. At least 7 days' notice has to be given prior to any meeting being held unless all members of Remuneration Committee unanimously waive such notice.

The Company prepared and delivered meeting papers that include all relevant information about the meeting to the Remuneration Committee's members at least 3 days prior to such meeting. Minutes drafted by the Company Secretary were circulated to the Remuneration Committee's members for comments within a reasonable time after this meeting. Executed minutes were kept by the Company Secretary and copies of the minutes were sent to the Remuneration Committee's members for records.

BOARD COMMITTEES *(CONTINUED)*

REMUNERATION COMMITTEE *(CONTINUED)*

REMUNERATION POLICY

Based on the discussion at the aforesaid meetings during the Year and, where applicable, taking into account actual implementation of the remuneration policy during the Year, the following sets out the remuneration of the Directors:

- Ms. Zhu Yufei, one of the joint chairmen and the chief executive officer, is not entitled to any director's fee;
- Mr. Cheung Wai Kuen, one of the joint chairmen, is entitled to an annual director's fee of HK\$150,000;
- Mr. Lin Jiang is not entitled to any director's fee;
- Mr. Wong Kin Man, a non-executive Director, is not entitled to any directors' fee; and
- each of Mr. Mai Yang Guang, Mr. Lam Chi Wing and Mr. Wong Yiu Kit, Ernest, an independent non-executive Director, is entitled to an annual director's fee of HK\$150,000.

Such director's fee is subject to annual review with reference to their duties and responsibilities as well as the prevailing market condition. The above Directors will be entitled to, if any, discretionary bonus to be determined at the discretion of the Board and the remuneration committee of the Board.

The Company aims to attract, retain and motivate talented and recognised staff, the Management and Directors of the Group by adoption of share option scheme and share award scheme. The Company adopted a share option scheme on 11 October 2012. During the Year, no share options had been granted and no share option was outstanding as at 31 December 2019. The Company adopted a share award scheme on 30 August 2018 (the "2018 Scheme"). As at 31 December 2019, no share award was granted pursuant to the 2018 Scheme. The 2018 Scheme is a discretionary scheme of the Company, which does not constitute a share option scheme or an arrangement analogous to a share option scheme for purpose of Chapter 17 of the Listing Rules. Please refer to the Company's circular dated 15 August 2018 and notes to the financial statements for a summary and principal terms of its rules.

Remuneration payable to the senior management and highest paid employees of the Company by band is disclosed in Note 12 of the consolidated financial statements of the Group in this report.

CORPORATE GOVERNANCE FUNCTIONS

The Board is responsible for performing the functions set out in the code provision D.3.1 of the CG Code. During the Year, the Board has reviewed and monitored the Company's corporate governance policies and practices, training and CPD of Directors and senior management of the Group, the Company's policies and practices on compliance with legal and regulatory requirements, the compliance of the Model Code and the Company's compliance with the CG Code and disclosure in this Corporate Governance Report.



MANAGEMENT FUNCTIONS

The executive Directors have defined clear directions on powers of management and delegated daily management and administration functions to the Management. The functions reserved to the Board and those delegated to the Management are reviewed from time to time. The Company would formalise the division of responsibility between the Board and the Management when the operational requirement of the Group justifies such division.

INDEPENDENT AUDITORS

HLB Hodgson Impey Cheng Limited was appointed as the Independent Auditors by the Shareholders at the 2019 annual general meeting of the Company held on 6 June 2019 (the “2019 AGM”). In order to maintain the independence and objectivity of the Independent Auditors (which for these purposes include any entity under common control, ownership or management with the audit firm or any entity that a reasonable and informed third party having knowledge of all relevant information would reasonably conclude as part of the audit firm nationally or internationally), they will not be engaged for non-audit work unless it has been pre-approved by the Audit Committee pursuant to the Company’s non-audit services policy.

Independent Auditors were engaged on an ad hoc basis to provide non-audit services, such as to provide a confirmation letter to the Board and a copy of this letter to the Stock Exchange to confirm, among others, that the continuing connected transaction had not exceeded the stipulated caps for the transaction, as part of the process for the annual review of the transaction as required under the Listing Rules during the Year. The fundamental policy of the Group is to ensure that the engagement of the Independent Auditors for non-audit services will not harm their independence or cause any bias on audit works for the presentation of the consolidated financial statements of the Group. During the Year, the fees for engaging HLB Hodgson Impey Cheng Limited to carry out work in connection with the annual review of a continuing connected transaction, being the reporting accountant of a major transaction and review of the profit guarantee of subsidiaries amounted to HK\$1,680,000 in aggregate.

At the 2019 AGM, HLB Hodgson Impey Cheng Limited was appointed by the Shareholders as the Independent Auditors. The audit fees for auditing the consolidated financial statements of the Group for the Year was HK\$1,800,000.

The accounts for the Year were audited by HLB Hodgson Impey Cheng Limited whose term of office will expire upon the forthcoming annual general meeting. The Audit Committee recommended to the Board that HLB Hodgson Impey Cheng Limited will be nominated for re-appointment as the Independent Auditors at the forthcoming annual general meeting.

FINANCIAL REPORTING

The Company aims to present a clear, balanced and understandable assessment of its financial position and prospects. Financial results are announced as early as possible, with interim report and annual report as well as inside information announcements and financial disclosures published as required under the Listing Rules.

The Management provides explanation, information and progress update to the executive Directors and/or the Board in order for it to make an informed assessment of the financial and other issues put before the Board for approval and consideration.

Throughout the Year, the Directors had selected appropriate accounting policies and applied them consistently. The Directors acknowledge their responsibilities for preparing the financial accounts of the Group which give a true and fair view and are in accordance with generally accepted accounting standards published by the HKICPA. A statement by HLB Hodgson Impey Cheng Limited about their reporting responsibilities for the Year is set out in the Independent Auditors' Report.

HLB Hodgson Impey Cheng Limited did not report for the Year that there was any material uncertainty relating to events or conditions that might cast significant doubt upon the Group's ability to continue as a going concern.

RISK MANAGEMENT AND INTERNAL CONTROL

The Board has the overall responsibility for evaluating and determining the nature and extent of the risks it is willing to take in achieving the Group's strategic objectives, maintaining sound and effective risk management and internal control systems and reviewing their effectiveness to safeguard Shareholders' investment and the Group's assets. The management is responsible for setting the appropriate tone from the top, performing risk assessment, and owning the design, implementation and maintenance of internal control. Essential to this risk management and internal control systems are well defined policies and procedures that are properly documented and communicated to employees. To this end, the Company continues to allocate resources for internal control and risk management systems to provide reasonable, though not absolute, assurance against material misstatement or loss and to manage rather than eliminate the risk or failure to achieve business objectives.

During the Year, the Group has implemented an internal audit function to review the financial condition, operational condition, risk management, compliance control and internal control of the Group. The Audit Committee assists the Board to fulfill its oversight role over the Group's risk management and internal control function by reviewing and evaluating the effectiveness of our overall risk management and internal control system at least annually. During the Year, the Board has reviewed the adequacy and effectiveness of the Group's risk management and internal control systems, through the Audit Committee.



RISK MANAGEMENT AND INTERNAL CONTROL *(CONTINUED)*

The Group's risk management and internal control systems are embedded within our business processes so that it functions as an integral part of the overall operation of the Group. The system comprises a comprehensive organisation structure with assignment of definite accountabilities and delegation of corresponding authorities to each post. Based on our organisation structure, a reporting system has been developed including reporting channels from division heads of business units to the Board.

The risk management and internal control systems and accounting system of the Group are aimed at identifying and evaluating the Group's risk and formulate risk mitigation strategies, and to provide reasonable assurance that assets are safeguarded against unauthorised use or disposition, transactions are executed in accordance with the management's authorisation, and the accounting records are reliable for preparing financial information used within the business for publication, maintaining accountability for assets and liabilities and ensuring the business operations are in accordance with relevant legislation, regulations and internal guidelines.

The Group has an organisational structure with defined lines of responsibility and authority. Each department is accountable for its daily operations and is required to report to executive Directors on a regular basis. Policies and procedures are set for each department, which includes establishing and maintaining effective policies to enhance the ability of risks identification to which the Group are exposed and taking appropriate actions to manage such risks, establishing a structure with defined authorities and proper segregation of duties; monitoring the strategic plan and performance; designing an effective accounting and information system; controlling price sensitive information; and ensuring swift actions and timely communication with our stakeholders.

The Group's risk governance structure and the main responsibilities of each level of the structure are summarized below:

The Board is responsible to determine the business strategies and objectives of the Group, and evaluates and determines the nature and extent of risks it is willing to take in achieving the Group's strategic objectives; ensures that the Group establishes and maintains appropriate and effective risk management and internal control systems; and oversees management in the design, implementation and monitoring of the risk management and internal control systems.

Audit Committee is responsible for assisting the Board to perform its responsibilities of risk management and internal control systems; overseeing the Group's risk management and internal control systems on an ongoing basis; reviewing the effectiveness of the Group's risk management and internal control systems at least annually, and such review should cover all material controls including financial, operational and compliance control; ensuring the adequacy of resources, staff qualifications and experience, training programmes and budget for the Group's accounting, internal audit and financial reporting functions; and considering major findings on risk management and internal control matters, and reports and makes recommendations to the Board.

The senior management designs, implements and maintains appropriate and effective risk management and internal control systems; identifies, evaluates and manages the risk that may potentially impact the major processes of the operations; monitors risk and take measures to mitigate risk in the day-to-day operations; gives prompt responses to and follow up the findings on risk management and internal control matters raised by the internal auditor or external risk management and internal control adviser; and provides confirmation to the Board and Audit Committee on the effectiveness of the risk management and internal control systems.

RISK MANAGEMENT AND INTERNAL CONTROL *(CONTINUED)*

Internal auditor is responsible for reviewing the adequacy and effectiveness of the Group's risk management and internal control systems; and reports to the Audit Committee on the findings of the review and makes recommendations to the Board and management to improve the material systems deficiencies or control weaknesses identified.

The Board has conducted a review of the effectiveness of the risk management and internal control systems for the year ended 31 December 2019 and considers them effective and adequate.

RISK MANAGEMENT PROCEDURES

In addition to the Board's responsibilities, the Company has developed a risk management process to identify, evaluate and manage significant risks and to resolve material internal control defects. Senior management is responsible for the annual risk reporting process. Internal auditor will meet with various members of the senior management to review and assess risks and discuss solutions to address material internal control defects, including any changes relevant to a given year. Risks are compiled, ratings are assigned and mitigation plans are documented. The risk assessment is reviewed by certain members of senior management and presented to the Audit Committee and the Board for their review.

Risks are evaluated by the Board and senior management based on (i) the severity of the impact of the risk on the Company's financial results; (ii) the probability that the risk will occur; and (iii) the velocity or speed at which a risk could occur.

Based on the risk evaluation, the Company will manage the risks as follows:

- Establish risk context – internal audit establishes common risk assessment and criteria and sets up risk reference tables for the Group.
- Risk identification – departments identify the risks that potentially impact the key process of their operations.
- Risk assessment – departments assess and score the risks identified along with their impact on the business and the likelihood of their occurrence.
- Risk treatment – departments assess effectiveness of existing controls and provide treatment plans when required.
- Risk reporting and monitoring – departments monitor risk mitigating activities. Risks are regularly reported at appropriate level within the Group and assurance is provided on the progress of treatment plans.



RISK MANAGEMENT AND INTERNAL CONTROL *(CONTINUED)*

PRINCIPAL RISKS

The Group faces a number of principal risks and uncertainties that if not properly managed could create an exposure for the Group. Thorough risk assessment and mitigation help ensure these risks are well managed and governed effectively. Principal risks identified by the Group are disclosed in the Directors' Report under the section headed "Risks and Uncertainties Relating to the Group's Business".

PROCEDURES AND CONTROLS OVER HANDLING AND DISSEMINATION OF INSIDE INFORMATION

With respect to the procedures and internal controls for the handling and dissemination of inside information, the Group has internal policy and procedures which strictly prohibit unauthorised use of inside information and has communicated to all staff; the Board is aware of its obligations to announce any inside information in accordance with the Listing Rules and conducts the affairs with reference to the "Guidelines on Disclosure of Inside Information" issued by the Securities and Futures Commission in June 2012. In addition, only Directors and delegated officers can act as the Group's spokesperson and respond to external enquiries about the Group's affairs.

COMPANY SECRETARY

The Company Secretary is responsible for ensuring that Board procedures are followed and for facilitating information flows and communications among Directors as well as with Shareholders and the Management. The Company Secretary's biography is set out in the "Profiles of Directors and Senior Management" section of this report. During the Year, Mr. Wong Wing Cheung has been the Company Secretary. Mr. Wong Wing Cheung had undertaken not less than 15 hours of professional training in compliance with Rule 3.29 of the Listing Rules.

SHAREHOLDERS' RIGHTS

The Company is committed to safeguarding the Shareholders' and the Company's interests as a whole and encourages the Shareholders to attend general meetings for participating in the important decisions of the Company for which the Shareholders' approval is required under the Listing Rules and the laws of Bermuda. The Company regards general meeting as an important event as it provides an important opportunity for direct communication between the Board and the Shareholders. Notices of the annual general meeting, together with the annual report and circular, was sent to the Shareholders more than 20 clear business days before the meeting whereas notice of the special general meeting, together with circular, was sent to the Shareholders more than 10 clear business days before the meeting. These allowed time for the Shareholders to digest information in the annual report and circulars, and to consider whether joining the meetings or not.

SHAREHOLDERS' RIGHTS *(CONTINUED)*

With the implementation of poll voting in lieu of show of hands at all general meetings of a listed company, shareholders can fully reflect their proprietary rights and interests by means of poll which is regarded as a fairer method of determination on business matters than voting on a show of hands at general meetings under the Listing Rules.

Mr. Cheung Wai Kuen acted as the chairman of the 2019 AGM and the special general meeting held on 28 August 2019 and 30 October 2019. The chairman of each meeting took the initiative to demand for a poll at the commencement of the meetings and explained the detailed procedures for conducting a poll to the Shareholders. All resolutions were put to vote and passed by poll under the scrutiny of the independent share registrar. The poll results were made public by means of public announcements which were uploaded to the websites of the Company and the Stock Exchange.

Statutory announcements, financial and other information of the Group are made available on the Company's website, which are regularly updated.

The Shareholders may put their enquires to the Board and also put forward proposals at general meetings by way of a written notice addressed to the Company Secretary at the principal office of the Company in Hong Kong.

THE WAY IN WHICH SHAREHOLDERS CAN CONVENE A SPECIAL GENERAL MEETING ("SGM")

The Directors of the Company, notwithstanding anything in its bye-laws shall, on the requisition of Shareholders of the Company holding at the date of the deposit of the requisition not less than one-tenth of such of the paid-up capital of the company as at the date of the deposit carries the right of voting at general meetings of the Company, forthwith proceed duly to convene a SGM of the Company.

The requisition must state the purposes of the meeting, and must be signed by the requisitionists and deposited with the Company Secretary at the Company's principal office at Unit E, 28th Floor, YHC Tower, 1 Sheung Yuet Road, Kowloon Bay, Kowloon, Hong Kong, and may consist of several documents in like form each signed by one or more requisitionists.

The request will be verified with the Company's Share Registrars and upon their confirmation that the request is proper and in order, the Company Secretary will ask the Board of Directors to include the resolution in the agenda for the SGM.

If the Directors do not within twenty-one days from the date of the deposit of the requisition proceed duly to convene a meeting, the requisitionists, or any of them representing more than one half of the total voting rights of all of them, may themselves convene a meeting, but any meeting so convened shall not be held after the expiration of three months from the said date.



SHAREHOLDERS' RIGHTS *(CONTINUED)*

THE PROCEDURES FOR SENDING ENQUIRIES TO THE BOARD

The enquiries must be in writing with contact information of the requisitionists and deposited with the Company Secretary at the Company's office at Unit E, 28th Floor, YHC Tower, 1 Sheung Yuet Road, Kowloon Bay, Kowloon, Hong Kong.

THE PROCEDURES FOR MAKING PROPOSALS AT SHAREHOLDERS' MEETINGS

To put forward proposals at an annual general meeting ("AGM"), or SGM, the Shareholders should submit a written notice of those proposals with the detailed contact information to the Company Secretary at the Company's principal office at Unit E, 28th Floor, YHC Tower, 1 Sheung Yuet Road, Kowloon Bay, Kowloon, Hong Kong. The request will be verified with the Company's Share Registrars and upon their confirmation that the request is proper and in order, the Company Secretary will ask the Board to include the resolution in the agenda for the general meeting.

The notice period to be given to all the Shareholders for consideration of the proposal raised by the Shareholders concerned at AGM or SGM varies according to the nature of the proposal, as follows:

- At least 21 days' notice (the notice period must include not less than 20 clear business days) in writing if the proposal constitutes a resolution of the Company in AGM
- At least 21 days' notice (the notice period must include not less than 10 clear business days) in writing if the proposal constitutes a special resolution of the Company in SGM
- At least 14 days' notice (the notice period must include not less than 10 clear business days) in writing for all other SGM of the Company

To safeguard shareholder interests and rights, separate resolutions are proposed at shareholder meetings on each substantial issue, including the election of individual Directors.

All resolutions put forward at a shareholder meeting will be taken by poll pursuant to the Listing Rules and the poll results will be posted on the websites of the Company and of the Stock Exchange after the shareholder meeting.

The Group will continue to maintain a close relationship with investors and develop greater understanding about the Group for international investors, to enhance investors' confidence in the Group.

SHAREHOLDERS' RIGHTS *(CONTINUED)*

THE PROCEDURES FOR MAKING PROPOSALS AT SHAREHOLDERS' MEETINGS (CONTINUED)

RIGHT TO PUT FORWARD PROPOSALS AT GENERAL MEETINGS

There are no provisions allowing shareholders to propose new resolutions at the general meetings. However, shareholders are requested to follow Bye-laws 89 of the Bye-laws of the Company for including a resolution at an SGM. The requirements and procedures are set out above. Pursuant to Bye-law 89 of the Bye-laws of the Company, no person other than a Director retiring at a meeting shall, unless recommended by the Directors for election, be eligible for election as a Director at any general meeting unless not less than seven clear days before the date appointed for the meeting there shall have been lodged at the Office or at the Registration Office notice in writing signed by some Members (other than the person to be proposed) duly qualified to attend and vote at the meeting for which such notice is given of his intention to propose such person for election and also notice in writing signed by the person to be proposed of his willingness to be elected. The period for lodgment of the notice required under this Bye-law shall commence no earlier than the day after the despatch of the notice of the meeting appointed for such election and end no later than seven days prior to the date of such meeting, provided that such period shall be at least seven days.

INVESTOR RELATIONS

Accountability and transparency are indispensable for ensuring good corporate governance and, in this regard, timely communication with the Shareholders, including institutional investors, is crucial. The Company considers good investor relations as a key part of its operations and continues to promote investor relations and enhances communications with the investors.

The Company maintains a corporate website (www.aidigong.hk) to make the Group's information, statutory announcements, and other financial and non-financial information available on the internet to facilitate its communication with the Shareholders.

The Company welcomes suggestions from investors and the Shareholders, and invites them to share their views and suggestions by contacting the Investor Relations Team at ir@aidigong.hk.



DIVIDEND POLICY

According to the dividend policy adopted by the Company, in deciding whether to propose a dividend and in determining the dividend amount, the Board shall take into account the following factors:

- (a) the Group's future operations and earnings;
- (b) the Group's capital requirements and surplus;
- (c) the general financial conditions of the Group;
- (d) contractual restrictions on payment of dividends; and
- (e) any other factors that the Board consider relevant.

The declaration and payment of dividends by the Company shall be determined at the sole discretion of the Board and shall be subject to any restrictions under the Companies Act of the Bermuda and the Bye-laws of the Company. The dividend policy of the Company will be reviewed from time to time and there can be no assurance that dividends will be proposed or declared in any particular amount for any given period.

CHANGE IN CONSTITUTIONAL DOCUMENTS

A special resolution regarding the change of Company's name was passed by the Shareholders at the special general meeting held on 30 October 2019 (the "SGM"). The name of the Company has been changed from "Common Splendor International Health Industry Group Limited" to "Aidigong Maternal & Child Health Limited" and the secondary name in Chinese of the Company has been changed from "同佳國際健康產業集團有限公司" to "愛帝宮母嬰健康股份有限公司". The bye-laws of the Company was amended for the inclusion of provision for appointment of joint chairman, which amendment was also approved by the Shareholders at the SGM. Except for the aforesaid amendments, there is no change in the memorandum of association and the Bye-laws for the Year.

CORPORATE GOVERNANCE CODE

Except for the deviation from code provision A.2.1 of the CG Code, the Company had fully applied the principles and complied with the requirements of the CG Code, as set out in Appendix 14 of the Listing Rules throughout the Year. For details of the said deviation, see the paragraph headed "Chairman and Chief Executive Officer" in the Corporate Governance Report.

CONCLUSION

The Company has maintained a good standard of corporate governance during the Year. The Company believes that corporate governance principles and practices are essential to the business communities. Ongoing effort will be given to review its corporate governance practices from time to time so to accommodate the changing circumstances. The Company will strive to maintain and strengthen the standard and quality of its corporate governance.

Environmental, Social and Governance Report

INTRODUCTION

This Environmental, Social and Governance Report (the “ESG Report”) summarizes the environmental, social and governance (“ESG”) initiatives, plans and performance of Aidigong Maternal & Child Health Limited (the “Company”) and its subsidiaries (collectively referred to as the “Group” or “our”) and demonstrates its commitment to sustainable development.

The Group is principally engaged in the postpartum care services, health industry, and other segment. The health industry includes natural health food trading in the Mainland China and medical anti-aging and healthcare industry investments, while other segment primarily comprises investment and finance business. For the year ended 31 December 2019 (the “Year” or “2019”), the Group completed the further material acquisition of Shenzhen Aidigong and expanded the business operations of postpartum care services.

Upholding the vision of “solving the health problems of people through our products and services so as to achieve “Healthy, Happy and Secure Life”, the Group has implemented the principles of sustainable development at operational levels such as day-to-day operations and strategic planning and investment. Through adhering to the management policies of sustainable ESG development, the Group committed to treating the Group’s ESG affairs effectively and responsibly, which become a core part of our business strategy, as we believe this is the key to our continued success in the future.

THE ESG GOVERNANCE STRUCTURE

The Group has established the ESG task force (the “Task Force”). The Task Force comprises core members from different departments of the Group and is responsible for collecting relevant information on our ESG aspects for the preparation of the ESG Report. The Task Force reports to the board of directors (the “Board”), assists in identifying and assessing the Group’s ESG risks, and assesses the effectiveness of the Group’s ESG internal control mechanism. The Task Force will also examine and assess our performances in different aspects such as health and safety, labour standards, and product and service responsibility in the ESG area. The Board sets the general direction of the Group’s ESG strategy and ensures the effectiveness of ESG risk control and internal control mechanism.



SCOPE OF REPORTING

As the postpartum care services and healthcare industry is the Group's largest source of revenue, unless otherwise stated, this ESG report mainly covers the directly managed and controlled business operation of the Group's postpartum care services and healthcare industry in Mainland China and Hong Kong, namely Realyoung International Life Medical Group Company Limited ("Realyoung Life") and Aidigong Maternity Health Group ("Aidigong"). The Group continues to assess the significant ESG areas of different businesses or substantial subsidiaries to determine whether it is necessary to include them in the ESG reporting.

REPORTING FRAMEWORK

The ESG Report is prepared pursuant to the Environmental, Social and Governance Reporting Guide under Appendix 27 of the Main Board Listing Rules of the Stock Exchange of Hong Kong Limited (the "ESG Reporting Guide"). The corporate governance practices of the Group are set out in the Corporate Governance Report on pages 32 to 53 of this annual report.

REPORTING PERIOD

The ESG Report describes the ESG activities, challenges and measures taken by the Group from 1 January 2019 to 31 December 2019.

STAKEHOLDER ENGAGEMENT

The Group places emphasis on stakeholders and their opinions on the business and ESG issues of the Group. To understand and respond to stakeholders' concerns, the Group stays in close communications with key stakeholders including investors, customers, suppliers, employees, social communities, non-governmental organization ("NGO") and media. While formulating operational strategies and ESG measures, the Group considers the expectations of stakeholders and continuously improves its performance through mutual cooperation, thus creating greater value for society.

STAKEHOLDER ENGAGEMENT *(CONTINUED)*

Through different stakeholder engagements and communication channels, we will take into account stakeholders' expectation in our operation and ESG strategy. The stakeholder engagements and communication channels and their expectation are as follows:

| Stakeholders | Communication channels | Expectation |
|-----------------------------|--|---|
| Investors and shareholders | <ul style="list-style-type: none"> Annual general meeting and other general meetings Financial reports Announcements and Circulars | <ul style="list-style-type: none"> Safeguard legal rights Announce update information of the corporate in a timely manner Financial results Improve internal control and risk management Corporate sustainable development |
| Customers | <ul style="list-style-type: none"> Customers service hotline Corporate website | <ul style="list-style-type: none"> Safe and high quality products and services Customer privacy protection Compliance operation |
| Suppliers | <ul style="list-style-type: none"> Business cooperation | <ul style="list-style-type: none"> Fair and open competition Commercial ethics and reputation Cooperation with mutual benefits |
| Employees | <ul style="list-style-type: none"> Regular management communications and work performance evaluation Staff communication and broadcast Internal network | <ul style="list-style-type: none"> Healthy and safe working environment Equal promotion opportunity Salary and benefits Occupation development |
| Communities, NGOs and media | <ul style="list-style-type: none"> ESG Report | <ul style="list-style-type: none"> Support charitable activities Perform environmental protection Provide high quality health services Open and transparent information |



MATERIALITY ASSESSMENT

In order to better understand stakeholders' opinions and expectations on the Group's ESG performance, we have adopted a systematic approach to conduct the annual materiality assessment, and invited all relevant stakeholders to participate in the materiality survey and gave ratings on potentially significant issues, taking the Group's business development strategies and industry practices as reference. We analysed the results of the materiality survey into a materiality matrix. The identified significant issues and stakeholder concerns will be reviewed and discussed with the management and disclosed in the ESG Report. During the Year, the Group's materiality matrix is as follows:

Materiality Matrix of the Group in 2019



- | | | |
|--|---|--|
| ① Environmental Protection Policy and Compliance Issues | ⑥ Corporate Social Responsibility | ⑪ Medical Safety and Quality Trainings |
| ② Energy and Water Consumption | ⑦ Prevent Corruption and Fraud | ⑫ Customer Service |
| ③ Medical Wastes Handling | ⑧ Internal Health and Safety Management | ⑬ Customer Privacy Protection |
| ④ Fair and Open Procurement | ⑨ Employment | |
| ⑤ Environmental and Social Risk Management in Supply Chain | ⑩ Quality of Medical Service | |

CONTACT US

We welcome stakeholders to provide their opinions and suggestions. You can provide valuable advice and suggestion in respect of the ESG Report or our performance in sustainable development by the following means:

Address: Unit E, 28th Floor, YHC Tower, 1 Sheung Yuet Road, Kowloon Bay, Kowloon, Hong Kong
 Telephone: (852) 2620 6623

A. ENVIRONMENTAL

A1. EMISSIONS

ENVIRONMENTAL PROTECTION POLICY AND COMPLIANCE ISSUES

The Group adheres to the strategy of sustainable development in its operations, focuses on sound environmental management, and strives to protect the environment in order to fulfill the Group's commitment on social responsibility.

The Group regularly follows the latest national and regional environmental protection laws and regulations, thereby focusing on strengthening environmental protection measures in order to comply with local government-related laws and regulations and fully implement environmental policies. The Group complies with applicable laws and regulations that have a significant impact on its business, including but not limited to the Air Pollution Control Ordinance, the Water Pollution Control Ordinance in Hong Kong and the Water Pollution Prevention and Control Law of the People's Republic of China, Regulations on Urban Drainage and Sewage Treatment, Regulations on the Administration of Medical Wastes, Law of the People's Republic of China on the Prevention and Control of Environmental Pollution by Solid Wastes in Mainland China.

In the course of business operation of the Group, in addition to the general emissions of greenhouse gases ("GHG") and the discharge of domestic wastes and sewage, medical wastes is generated during the provision of medical services which causes potential impacts on the environment and may exposes the Group to relevant compliance risk. Therefore, the Group has formulated relevant rules and regulations for the effective control and orderly management of medical wastewater, medical wastes, and other pollutants generated during operation, and supervising the implementation of environmental protection measures by various departments. Such measures aim to prevent and reduce pollutants against the environment, protect and improve the environment, and protect the health of employees, so as to achieve the environmental objectives and indicators of the Group.

The responsible persons in charge of the Group's environmental affairs supervise the implementation of the above measures and relevant environmental protection policies. Under the strict supervision and guidance, various departments endeavour to implement the environmental protection policies of the Group and ensure that all operation processes comply with legal requirements. The responsible persons at all levels of environmental protection continue to review the policies and implementation procedures of the Group and report back to the management appropriately. Suggestions would be made if necessary. If unexpected incident causes to abnormal discharge during operation, the responsible person should take emergency measures immediately to prevent the outspread of pollution and report to the management in a timely manner for efficient coordination.

During the Year, the Group did not have any material violations of relevant local environmental laws and regulations in relation to exhaust gas and GHG emissions, water and land discharge, and the generation of hazardous and non-hazardous wastes that have a significant impact on the Group.



A. ENVIRONMENTAL *(CONTINUED)*

A1. EMISSIONS *(CONTINUED)*

EXHAUST GAS EMISSIONS

Since the Group is principally engaged in the postpartum care services and healthcare industry, there is no direct production process involved in the business process. Therefore, the exhaust gas emissions generated during the commercial operation mainly come from vehicle emissions. We have taken the following measures to reduce emissions from vehicle exhaust:

- Turn off the engine when the vehicle is not in use;
- Use unleaded fuel and low-sulphur fuel according to the laws and regulations;
- Eliminate non-compliant vehicles in accordance with national emission policy regulations;
- Regular maintenance of the vehicle to ensure that engine performance does not interfere with the effective use of fuel; and
- Optimise operational procedures to increase efficiency and reduce vehicle idling rates.

The employee's awareness of reducing exhaust gas emissions has been increased through these exhaust gas emissions mitigation measures.

The overview of GHG emissions performance of the Group during the Year was as follow:

| Types of exhaust gas | Unit | Emissions |
|-----------------------------------|-------------|------------------|
| Nitrogen Oxide (NO _x) | Kg | 742.26 |
| Sulfur Oxide (SO _x) | Kg | 1.94 |
| Particulate Matter (PM) | Kg | 70.03 |

GHG EMISSIONS

The major sources of the Group's GHG emissions are direct GHG emissions from the combustion of gasoline and diesel (Scope 1), indirect GHG emissions from purchased energy (Scope 2). In addition to the vehicle measures mentioned in the "Exhaust Gas Emissions" section at this level, the Group actively adopts electricity conservation and energy saving measures to reduce GHG emissions, including:

- Use energy-saving equipment, appliances and lamps in office;
- Forbid running idle equipment and unreasonable electric wiring distribution;
- Require employees to pull down the main gate switch, the water curtain wall switch and the electric switch of the front glass door before off duty, and pull them up the next morning;

A. ENVIRONMENTAL *(CONTINUED)*

A1. EMISSIONS *(CONTINUED)*

GHG EMISSIONS *(CONTINUED)*

- Turn on electrical equipment, including lighting equipment, air conditioners, fans, etc. during business hours depending on actual needs, and encourage employees to turn off the power when not in use or before off duty;
- Regulate the use of air conditioners strictly where the temperature shall not be lower than the default, and turn off the air conditioner in all VIP rooms and treatment rooms when they are not in use; and
- Enhance the maintenance and overhaul of equipment, maintain the best condition of all electronic equipment for effective use of electricity.

Due to the expansion of the reporting scope, the Group's total GHG emissions increased from approximately 103.22 tons of carbon dioxide equivalent in 2018 to approximately 6,807.78 tons of carbon dioxide equivalent in 2019. Excluding the new reporting scope, but only consider the 2018 reporting scope (i.e. Realyoung Life), the total GHG emissions in 2019 were 92.16 tons of carbon dioxide equivalent, which represented a 10.71% reduction from the total GHG emissions in 2018.

During the Year, the summary of GHG emissions of the Group were as follows:

| Indicator ¹ | Unit | Emissions |
|---|---------------------------------|-----------|
| Direct GHG emissions (Scope 1) | tCO ₂ e | 1,340.00 |
| Indirect resources GHG emissions (Scope 2) | tCO ₂ e | 5,467.78 |
| Total GHG emissions | tCO ₂ e | 6,807.78 |
| Intensity of total GHG emissions ² | tCO ₂ e/per employee | 3.91 |

Note:

1. GHG emission data is presented in terms of carbon dioxide equivalent and are based on, but not limited to, "The Greenhouse Gas Protocol: A Corporate Accounting and Reporting Standards" issued by the World Resources Institute and the World Business Council for Sustainable Development, Guidelines to Account for and Report on Greenhouse Gas Emissions and Removals for Buildings (Commercial, Residential or Institutional Purposes) in Hong Kong, the latest released emission factors of China's regional power grid basis, "How to prepare an ESG Report – Appendix II: Reporting Guidance on Environmental KPIs" issued by HKEX, the "Global Warming Potential Values" from the IPCC Fifth Assessment Report, 2014 (AR5), and CLP 2019 Sustainability Report.
2. As at 31 December 2019, the number of employees of the subsidiaries (i.e. Realyoung Life and Aidigong) covered by the ESG Report was 1,739, which would also be used for calculating other intensity data.



A. ENVIRONMENTAL *(CONTINUED)*

A1. EMISSIONS *(CONTINUED)*

WASTES MANAGEMENT

MEDICAL WASTES HANDLING

The major hazardous waste generated by the Group is medical wastes, such as syringe, infusion set, blood transfusion tool, pharmaceutical bottle, blood purification materials, cotton swab for disinfection, cotton swab and pad, indwelling needle, therapeutic sheet and waste medicines, etc. The Group understands that medical wastes needs to be properly disposed of to prevent hazardous causes to the environment and human health. Therefore, we are responsible for treating wastes in a legal, safe and professional manner. The business of the Group shall comply with environmental laws and regulations, including the provisions for the treatment of medical wastes. The Group has formulated and effectively implemented relevant written procedures for the treatment of medical wastes in accordance with the Regulations on the Administration of Medical Wastes of Guangdong Province and the Measures for Medical Wastes Management of Medical of Health Institutions to ensure proper management and safe disposal of the wastes.

The Group provides training to all frontline staff to ensure that all related staff are familiar with the relevant procedures. The relevant procedures and systems are as follows:

- Identification and separation of types of wastes:

Separate and classify different types of wastes from sources (ward, laboratory, inspection room, etc.) under the supervision of responsible personnel with clear operational guidelines and manuals according to the “Classified Catalogue of Medical Wastes”;

- Transportation and storage of wastes:

Use puncture- proof and leak-proof container, bags are properly bundled and sealed, use special transport trolleys, store wastes in covered areas away from normal access, and take safety measures to prevent unauthorized reuse;

- Use of personal protective equipment:

Identify and provide special clothing, gloves, masks and eye protection to employees responsible for wastes transportation and disposal; and

- Proper wastes disposal:

Collect and follow-up disposal by qualified and licensed service providers specialized in the treatment of medical wastes (including incineration, landfill or chemical and biochemical treatment of applicable types of wastes) at the final stage. Such wastes are generally not recyclable and reusable because of their hazardous nature.

A. ENVIRONMENTAL *(CONTINUED)*

A1. EMISSIONS *(CONTINUED)*

WASTES MANAGEMENT *(CONTINUED)*

MEDICAL WASTES HANDLING *(CONTINUED)*

Due to the increased demand for medical supplies at the outpatient department of Life Anti-aging Center in Nanshan District, Shenzhen, the total hazardous wastes disposal of the Group increased from approximately 0.67 tonnes in 2018 to approximately 1.36 tonnes in 2019. The performance of the Group's hazardous wastes disposal during the Year is summarized as follows:

| Types of hazardous wastes | Unit | Disposal |
|-----------------------------|-----------------|----------|
| Medical wastes | tonnes | 1.36 |
| Intensity of medical wastes | tonnes/employee | 0.0008 |

NON-HAZARDOUS WASTES HANDLING

In addition to medical wastes, the Group generates general non-hazardous wastes during its operations, including paper, paper towels, masks, plastic gloves, disposable protective gowns, disposable shoe covers, and other uncontaminated containers. After collection and classification, such wastes will eventually be collected and disposed by property management company. Through the four basic principles of waste reduction: reducing usage, waste reuse, recycling, and alternative usage, we also strive for the promotion of green office and operating environment and the recycling of recyclable waste for reuse.

At the same time, the Group is committed to establishing an electronic office. The office makes full use of the online system to conduct general business notices and data transmissions. Printing and copying are minimized to the largest extent, office paper is used both sides, promoting the use of recycled paper. The office is responsible for supervising the amount of paper usage; waste paper is collected and disposed by the administrative department and the office. Besides, the Group has been exploring opportunities to upgrade and strengthen clinic management and administrative information technology systems, such as planning to upgrade our electronic medical record software system to reduce the use of paper.

Due to the expansion of the reporting scope, the total non-hazardous wastes disposal of the Group increased from approximately 0.11 tonnes in 2018 to approximately 14.59 tonnes in 2019. Excluding the new reporting scope, but only consider the 2018 reporting scope (i.e. Realyoung Life), the non-hazardous wastes emission in 2019 was 0.29 tonnes, which was mainly due to the increase in the use of papers.



A. ENVIRONMENTAL (CONTINUED)

A1. EMISSIONS (CONTINUED)

WASTES MANAGEMENT (CONTINUED)

NON-HAZARDOUS WASTES HANDLING (CONTINUED)

During the Year, the Group's non-hazardous wastes disposal performance was summarized as follows:

| Types of non-hazardous wastes | Unit | Disposal |
|---|-----------------|----------|
| Paper ³ | tonnes | 12.48 |
| General wastes | tonnes | 2.11 |
| Total non-hazardous wastes | tonnes | 14.59 |
| Intensity of total non-hazardous wastes | tonnes/employee | 0.008 |

Note:

3. In 2019, actual paper consumption was approximately 2,113,000 sheets.

SEWAGE DISCHARGE AND TREATMENT

The Group discharges operational water and medical sewage during its daily operation process, the disinfected medical sewage, together with employees' operational and domestic sewage are discharged into the municipal sewage pipeline network for processing in regional water purification plant. After wastewater inspection, the water discharge of the Group satisfied the level 3 standard requirement of the second time-period of "Discharge Limits of Water Pollutants" (DB44/26-2001) of Guangdong Province.

Since the Group's sewage is discharged into the municipal sewage pipeline network for processing in regional water purification plant, the amount of the Group's water consumption represents the wastewater discharge volume. The data of water consumption discharge volume will be described in the section headed "Water Consumption" under aspect A2.

A2. USE OF RESOURCES

The Group aims to actively promote the effective use of resources, real-time monitoring of the potential impacts of business operations on the environment, and promote green office and operating environment, thus minimizing the Group's environmental impacts and enhancing its environmental sustainability. The Group supervises the use of water, electricity and other resources, measures usage on monthly basis, conducts targeted administration of major energy-consuming equipment, and standardizes equipment operation procedures to accomplish full and effective use of energy.

ENERGY CONSUMPTION

The major energy consumption of the Group during its daily operation is operational electricity consumption. For electricity consumption, the Group has formulated rules and regulations to achieve the goal of electricity saving and effective use of electricity. Except for the energy-saving measures mentioned in the section headed "GHG Emissions" under aspect A1, the Group installed LED energy-saving lamps in all lighting areas, and instils the consciousness of energy conservation and environmental protection into the work and life of every employee through posting power-saving slogans, etc. In addition, the Group has gradually replaced obsolete equipment with energy-saving certified alternatives to reduce energy consumption.

A. ENVIRONMENTAL (CONTINUED)

A2. USE OF RESOURCES (CONTINUED)

ENERGY CONSUMPTION (CONTINUED)

Due to the expansion of the reporting scope, the total energy consumption of the Group increased from approximately 186.79 MWh in 2018 to approximately 16,170.88 MWh in 2019. Excluding the new reporting scope, but only consider the reporting scope of 2018 (i.e. Realyoung Life), the total energy consumption in 2019 was 170.00 MWh, which was 8.99% lower than the total energy consumption in 2018.

The energy consumption performance of the Group during the Year is summarized as follows:

| Types of energy | Unit | Consumption |
|---------------------------------------|--------------|-------------|
| Electricity | MWh | 9,957.84 |
| Gasoline ⁴ | MWh | 1,277.99 |
| Natural gas ⁵ | MWh | 4,935.05 |
| Total energy consumption | MWh | 16,170.88 |
| Intensity of total energy consumption | MWh/employee | 9.30 |

Notes:

4. In 2019, the actual consumption of gasoline was approximately 131,868.99 liters.
5. In 2019, the actual consumption of natural gas was approximately 471,852.13 cubic meters.

WATER CONSUMPTION

The water consumption of the Group is mainly office water usage and medical water consumption. The Group has been strengthening its water-saving promotion, posting water-saving slogans. We encourage all employees and customers to develop the habit of conserving water consciously and guide employees to use water reasonably. To improve the Group's water efficiency, we take the following measures:

- Use water-saving appliances as much as possible;
- Turn off water tap after use to prevent running, overflowing, dripping and leaking water;
- When irregularity is found, one should report the case to the Equipment Division to take appropriate action to prevent wastage of water resources; and
- Post water-saving signs in tea rooms and toilets to remind employees to save water.

Due to the expansion of the reporting scope, the Group's water consumption increased from approximately 1,226.98 cubic meters (i.e. 1,226.98 tonnes) in 2018 to approximately 243,328.00 cubic meters in 2019. Excluding the new reporting scope, but only consider the 2018 reporting scope (i.e. Realyoung Life), the water consumption in 2019 was 2,513.00 cubic meters, and the main reason for the increase in water consumption was due to growth in the outpatient department of the Life Anti-aging Center in Nanshan District, Shenzhen.



A. ENVIRONMENTAL *(CONTINUED)*

A2. USE OF RESOURCES *(CONTINUED)*

WATER CONSUMPTION *(CONTINUED)*

During the Year, the Group's water consumption performance (i.e. sewage discharge) is summarized as follows:

| Water consumption | Unit | Consumption |
|--------------------------------|----------------------|-------------|
| Water consumption | Cubic meter | 243,328.00 |
| Intensity of water consumption | Cubic meter/employee | 139.92 |

Due to the geographical location of our offices and clinics, we do not have any issue in sourcing water that is fit for purpose.

USE OF PACKAGING MATERIALS

Due to our business nature, members of the Group do not primarily engage in manufacturing business requiring the use of significant amount of packaging materials. Therefore, it does not consume any significant amount of packaging materials during its daily operation.

A3. THE ENVIRONMENT AND NATURAL RESOURCES

The Group pursues environmental best practice and focuses its business impact on the environment and natural resources. In addition to complying with environmental related regulations and international standards to appropriately protect the natural environment, the Group has integrated the concept of environmental protection into its internal management and daily operational activities and is committed to achieving environmental sustainability. We are aware of our responsibility to minimize the negative impact of our business operations on the environment in order to achieve sustainable development and create long-term value for our stakeholders and the community. We continuously monitor whether our business operations have any potential impact on the environment and minimize the impact of our operations on the environment by promoting green offices.

INDOOR WORKING ENVIRONMENT

The Group is committed to providing employees with a comfortable and environmentally friendly working environment to enhance work efficiency. We also strive to maintain a clean and neat environment in the workplace. The Group regularly inspects office areas to ensure that a good working environment is maintained. Once the Group discovers problems in the workplace in time, it will take precautionary measures to minimize potential hazards to employees. In addition, the Group regularly monitors indoor air quality in the workplace and regularly cleans air-conditioning systems to maintain good indoor air quality.

B. SOCIAL

B1. EMPLOYMENT

Employees are the greatest and most valuable asset and the core competitive advantage of the Group; therefore, the success of the Group is highly dependent on its capability to attract, cultivate and retain employees. The Group adheres to a people-oriented approach, respects and safeguards the legitimate interests of every employee, standardizes labour employment management, and protects employees' occupational health and safety. The Group has also formulated a series of relevant personnel management policies in accordance with relevant laws and regulations to safeguard the vital interests of employees, fully respect and value the proactiveness, motivation and creativity of employees to build harmonious labor relationships and provide employees with a healthy, positive and motivative working atmosphere, and guides employees to actively integrate personal pursuits into the long-term development of the Group.

The Group has complied with all laws and regulations related to remuneration and dismissal, recruitment and promotion, working hours, holidays, equal opportunities, diversity, anti-discrimination and other benefits and benefits, including but not limited to the Hong Kong Companies Ordinance, Mandatory Provident Fund Schemes Ordinance, Regulations on Minimum Wages, Regulations on Privacy of Personal Data, and the Company Law of the People's Republic of China, the Contract Law of the People's Republic of China, the Labor Contract Law of the People's Republic of China, and Labor Safeguards Regulations. During the Year, the Group did not discover any violations of local relevant employment laws and regulations that have a significant impact on the Group.

As at 31 December 2019, the Group's subsidiaries covered in the scope of the ESG Report had a total of 1,739 full-time employees, all of whom worked in Mainland China, and were classified as follows:

| | Headcount | Percentage of total headcount |
|------------------|-----------|-------------------------------------|
| By gender | | |
| Male | 292 | 16.8% |
| Female | 1,447 | 83.2% |
| By age | | |
| <30 | 1,008 | 58.0% |
| 30-40 | 461 | 26.5% |
| 41-50 | 219 | 12.6% |
| 51-60 | 49 | 2.8% |
| >60 | 2 | 0.1% |



B. SOCIAL *(CONTINUED)*

B1. EMPLOYMENT (CONTINUED)

RECRUITMENT, PROMOTION, INCENTIVE AND DISMISSAL

The Group has continuously established and improved its recruitment and selection system. In the recruitment process, we will standardize the hiring procedures and recruitment principles, adhere to the hiring principles of morality, knowledge, ability, experience and fitness applicable to job positions as well as the principles of justice, fairness, equality, and openness, so as to continuously attract talents.

The Group manages front-line employees and office staff separately and specifies the basis and process for staff promotion, transfer and demotion management, in order to regulate the departure and dismissal process, and protect the interests of both employees and the Group. The Group has implemented a fair and open assessment system to provide employees with opportunities for promotion and development based on their work performance and internal assessment results so as to explore their potential at work. The Group established a reserve talent pool and arranged tailor-made trainings and leadership positions for key training targets to provide more opportunities and platforms for employees' career development and to meet the Group's needs of sustainable development. The Group also gives priority to promote employees who contribute more than the others, so as to optimize the allocation of human resources within the Group.

The Group has already implemented a reward system and also rewarded employees who have made outstanding contributions to the Group. Staff providing constructive advices will be awarded based on the level of rationalization of the advices. Besides, the Group will conduct regular employee assessment to reward employees with outstanding performance.

The dismissal-related procedures for the employees of the Group are specified in the personnel management policy. All termination procedures must be completed in accordance with the requirements of relevant laws and regulations, as well as professional regulations. The Group absolutely disallows employees dismissal in any circumstances. The dismissal process will only take place on a reasonable basis, and ensure that issues are fully communicated before the formal dismissal.

REMUNERATION AND BENEFITS

The Group has established a fair, equitable, reasonable, and competitive remuneration system for salary payments to employees based on the principle of fairness, competition, incentives, reasonableness, and legitimacy. The remuneration of the Group's employees comprises basic salary, performance bonus, overtime payment, position subsidy, related subsidies and other various bonuses. In addition, the Group conducts annual assessments in accordance to changes in macroeconomic factors (e.g. national policies and price levels), industry and regional remuneration levels, changes in the Group's development strategy, and the overall effectiveness of the Group, and makes corresponding adjustments to staff remuneration.

B. SOCIAL *(CONTINUED)*

B1. EMPLOYMENT *(CONTINUED)*

REMUNERATION AND BENEFITS *(CONTINUED)*

The Group has signed and executed labour contracts with employees in accordance with the Labour Contract Law. The signing rate of the labour contracts is 100%. In accordance with the law, the Group legally pays “five social insurance and one housing fund” for its employees, namely endowment insurance, medical insurance, unemployment insurance, employment injury insurance, maternity insurance, and housing provident fund, to ensure that employees are covered by social insurance.

The Group earnestly safeguards the legitimate interests of labour in accordance with the requirements in Labour Law of the People’s Republic of China and related national and local laws and regulations, respects the rights of employees to rest and leave, and regulates their working hours and their rights for various types of rest times and holidays. In accordance with the Labour Law of the People’s Republic of China, we implement five-day work, weekend shift duty, eight working hours per day, and follow the Regulation on Paid Annual Leave for Employees and other relevant regulations to implement the paid leave system for employees. Meanwhile, overtime wage is paid for labour exceeding statutory working hours in accordance with national laws and regulations.

The Group has been committed to providing thoughtful and comprehensive employee benefits and actively organizing various activities. On one hand, it creates a warm family atmosphere with meticulous care to employees. On the other hand, it helps employees to enjoy work-life balance through such benefits. The relevant benefits and activities are as follows:

- Provide family vacation benefits such as marriage leave and maternity leave and encourage employees to spend time with their families;
- Deliver festive foods such as moon cakes and dumplings to employees during certain traditional festivals (such as Lunar New Year and Mid-Autumn Festival) in recognition of their contributions and dedicated work to the Group; and
- Organize various group activities for employees to create a dynamic company atmosphere, promote communication and interaction among colleagues, and enhance team spirit.

EQUAL OPPORTUNITY

The Group strictly complies with national and local government regulations by adopting a fair, just and open recruitment process and developing relevant system files to eliminate discrimination in the recruitment process, whose employees faces no discrimination regardless of race, gender, colour, age, family background, ethnic tradition, religion, physical fitness and nationality, thus allowing them to enjoy fair treatment in every aspect including recruitment, salary, training and promotion, labour contract termination and retirement, with an endeavour to attract professionals with diverse backgrounds joining the Group. We are committed to providing equal opportunities in all respects and are committed to maintaining employee diversity, and strongly prohibit any unfair treatment.



B. SOCIAL *(CONTINUED)*

B2. HEALTH AND SAFETY

As a company engaged in the healthcare industry business, the Group recognizes the importance of the health and safety of its employees, commits itself to providing employees with a healthy, safe and comfortable working environment and strives to eliminate potential health and safety hazards at workplaces and perform well in safety management in all aspects to ensure the personal safety and health of employees during work. We have established a sound occupational health and safety management system to provide employees with a safe working environment.

The Group has complied with all laws and regulations related to providing a safe working environment and protecting employees from occupational hazards, including but not limited to the Occupational Safety and Health Ordinance in Hong Kong, Employees' Compensation Ordinance, and Occupational Diseases of the People's Republic of China in Mainland China, Law on Prevention and Control, and Law of the People's Republic of China on Work Safety. During the Year, the Group's subsidiaries covered by the ESG Report did not identify any violation of local relevant health and safety regulations that have a significant impact on the Group, and there was no record of any fatality related to work due to accidents. The number of working days lost due to work-related injuries was 42 days.

INTERNAL HEALTH AND SAFETY MANAGEMENT

The Group has formulated a series of professional protection standards in accordance with laws and regulations such as the Law of the People's Republic of China on the Prevention and Treatment of Infectious Diseases and maintained a set of internal health and safety management systems, including but not limited to the "Policy on the Infectious Disease Prevention and Control" and "Remaining Drugs Recycling Management", etc., so as to ensure the health and safety of customers, the public and employees in the operation. The Group has set up relevant committees to supervise and inspect the Group's work on infectious disease control and management. Specifically, the Group has established the following occupational safety measures for employees:

- For the prevention of infectious pathogens, laboratories and medical personnel should wear gloves, masks with anti-permeation function, goggles, face masks, or even isolation gowns or aprons with anti-permeation function;
- When infectious patients, or those in close contact with them is found among employees or clients, employees should take necessary measures of isolation, treatment and spread control, and report to the local disease control centre in a timely manner;
- To control the potential spread of infectious diseases in clinics or laboratories, we will conduct regular sterilization in both areas. Regular cleaning of air-conditioning systems and sanitization of carpets should be arranged while the cleanliness of the passageway and work environment should be maintained;

B. SOCIAL *(CONTINUED)*

B2. HEALTH AND SAFETY *(CONTINUED)*

INTERNAL HEALTH AND SAFETY MANAGEMENT *(CONTINUED)*

- A dangerous goods classification system in medical laboratories has been set up to classify and specify the hazards of chemicals, reagents, and equipment, and a comprehensive and systematic system has been established to manage dangerous goods and reduce their risk; and
- An operating license has been issued by China Food and Drug Administration to ensure the safety of relevant medical devices.

OCCUPATIONAL SAFETY TRAINING

MEDICAL SAFETY AND QUALITY TRAININGS

As medical work is exposed to greater occupational risks, the Group places special emphasis on prevention of occupational hazards and related trainings. The Group has formulated the “Policy on the Medical Quality and Safety Training”, organized various kind of safety education by different means such as the trade unions, and formulated safety operation procedures as the major content of occupational safety education based on medical treatment subjects and medical equipment. We implemented “three- level” safety education for our employees, including orientation trainings, position trainings and on-site trainings. The Group has provided trainings and examinations on policies and regulations related to healthcare management, the regulations of the Group’s clinic, the regulations on the operation of medical equipment, medical waste treatment and occupational protection, as well as medical safety working experience, so to assist employees to familiarize the operational procedures and regulations of occupational health and safety, and strengthen their ability of controlling occupational hazards. In addition, we also make use of trainings, billboards, and pamphlets to raise our employees’ awareness of self-care. We will also organize a series of occupational health talks such as disease prevention lectures to enhance our employees’ health awareness.

FIRE SAFETY TRAINING

The Group has also formulated fire safety systems in accordance with the Fire Protection Law of the People’s Republic of China and the Provisions on Supervision and Administration of Fire Control at Construction Projects. By implementing the principle of “mainly prevention, combining prevention and elimination”, fire drills are conducted to popularize knowledge of fire prevention, staff’s awareness of fire prevention are raised and fire evacuation plans are improved to strengthen employees’ ability to escape from a fire scene. In addition, we also have first aid kits and fire extinguishers in workplace in response to emergencies.



B. SOCIAL (CONTINUED)

B3. DEVELOPMENT AND TRAINING

The Group focuses on corporate internal management training and the establishment of development system. Through multiple training modes of induction training, management personnel training, technical personnel training and pre-post training, diverse needs of employees at all levels are fulfilled and their skills are enhanced such that they can continue to provide high-quality services to assist the Group's sustainable development while in turn supporting them in personal growth and development.

During the Year, 93% of the Group's employees in subsidiaries covered by the ESG Report had participated in the training and completed 19,388.50 hours of training. The percentage of employees trained by gender and employee category and average number of hours employees completed the training was as follows:

| | Percentage of employees trained | Average training hours received |
|--|------------------------------------|------------------------------------|
| By gender | | |
| Male | 96% | 4.10 |
| Female | 93% | 12.97 |
| By employee category | | |
| President, deputy general managers and directors | 69% | 13.00 |
| Managers | 100% | 25.79 |
| Supervisors | 100% | 16.24 |
| Team leaders and employees | 93% | 11.36 |

TRAINING MANAGEMENT

The Group has developed training related procedures to regulate the training management of employees. The management regularly formulates training proposals and establishes corporate training files. The management regularly reviews the effectiveness of different training programs and courses to help improve the efficiency of the Group's training system. According to the training proposals, the Group evaluates and monitors the implementation of its training courses, striving to providing appropriate training courses for different levels of employees.

TRAINING PROGRAMMES

The in-house corporate training of the Group includes various forms of training courses (including seminars and lectures), visits and inspections, business studies, distribution and posting of promotional materials, field rehearsals and self-study. Outsourcing training includes engaging tertiary institutions, research and development agencies, government agencies and industry management departments to provide lectures for the Group.

B. SOCIAL *(CONTINUED)*

B3. DEVELOPMENT AND TRAINING *(CONTINUED)*

TRAINING PROGRAMMES *(CONTINUED)*

Newly recruited employees are required to receive short-term induction training. The contents mainly include the introduction of the Group and our business, the development and trend of medical anti-aging business, professional basic knowledge, internal corporate organizational structure and management system, and daily conduct standards. The company's business department will also arrange new employees to visit the Group's agencies in field, so as to help them understand corporate culture and systems at a faster pace.

The medical professionals of the Group can participate in academic activities related to their majors, including international academic conferences, academic forums in China, academic seminars, continuous medical education programmes in national level, and academic lectures by well-known local and overseas experts, etc.

The Group also recognizes the importance of occupational safety training and fire training to protect the personal safety of employees. The relevant policies have been described in detail in the section headed "Occupational Safety Training" under aspect B2.

B4. LABOUR STANDARDS

PREVENT CHILD AND FORCED LABOUR

The Group has complied with all laws and regulations related to the prevention of child labor or forced labor, including but not limited to, the Employment Regulations in Hong Kong and the Labor Law of the People's Republic of China, Prohibition of Use of Child Labour of the People's Republic of China and Forced Labour Convention.

The Group strictly prohibits the employment of any child labor and forced labor. Employment will only be permitted for staff at an age of 16 or above. New employees are required to provide true and accurate personal data when they are employed. Recruiters should strictly review the entry data including medical examination reports, academic credentials, ID cards, household registration, degree certificates and other information. The Group has established comprehensive recruitment procedures to check the background of candidates in order to prevent any child labor or forced labor in operation.

The Group and its employees signed legal labor contracts in accordance with laws, so that there is no compulsory use of labor. For the use of false information or in violation of the provisions of the Group, we will terminate the probation period or the labour contract immediately.

In addition, the Group's employees' overtime work complies with the principle of voluntariness, so as to avoid violation of labor standards and effectively protect the rights and interests of employees. The Group also prohibits punitive measures, management methods and behaviors such as verbal abuse, physical punishment, violence, and mental oppression on employees for any reason.

During the Year, the Group did not discover any material non-compliance with laws and regulations related to the prevention of child labor or forced labor that had significant impact on the Group.



B. SOCIAL (CONTINUED)

B5. SUPPLY CHAIN MANAGEMENT

The Group is principally engaged in the purchase of medical equipment and drugs from suppliers. In addition to the specifications of the required products, price trends of medical devices and drugs, and product demand, the Group also places great emphasis on the management of potential environmental and social risks in the supply chain. The Group has established a rigorous and regulated procurement system and supplier selection procedures, and put forward requirements for suppliers on environmental and social risk control.

In the process of supply chain management, the Group strictly complies with the Pharmaceutical Administration Law of the People's Republic of China, Regulations for the Implementation of the Pharmaceutical Administration Law of the People's Republic of China, Regulations for the Control of Narcotic Drugs and Psychotropic Drugs, the Measure for the Supervision and Administration of Medical Devices, etc., and other relevant laws and regulations in an effort to minimize the potential environmental and social risks in the supply chain.

ENVIRONMENTAL AND SOCIAL RISK MANAGEMENT IN SUPPLY CHAIN

The Group expects suppliers to meet our standards in many aspects such as environment, quality, society, corporate governance, and business ethics. We have formulated relevant regulatory documents on environmental, social and ethical standards requiring suppliers to bring a positive impact on environmental and social matters. Major scope covers legal compliance, human rights protection, employee safety and health, social responsibility, business ethics and environmental protection.

DRUGS

The introduction and procurement of the drugs shall be discussed and concluded by the medical professionals of the Group.

MEDICAL EQUIPMENT AND MEDICAL CONSUMABLES

The introduction of medical equipment and medical consumables as well as the temporary purchase of licensed pharmaceuticals shall all subject to discussion and decision by medical professionals of the Group. The relevant medical equipment suppliers shall possess relevant qualifications such as the "Operation Permit for Medical Device", otherwise the Group will terminate its supply contract.

B. SOCIAL *(CONTINUED)*

B5. SUPPLY CHAIN MANAGEMENT *(CONTINUED)*

FAIR AND OPEN PROCUREMENT

The Group's procurement process strictly follows the relevant provisions of the Bidding Law of the People's Republic of China and other relevant regulations, and is in an open, fair and impartial environment. The Group will not discriminate against any suppliers, and will not allow any corruption or bribery, and employees and other individuals who have interest in relevant suppliers will not be permitted to participate in related procurement activities. The Group focuses on the integrity of its suppliers and partners. We will only select suppliers and partners who have good business records in the past and have committed in any serious law or business ethics.

B6. PRODUCT RESPONSIBILITY

The Group places great emphasis on the quality of medical services and corporate reputation. The Group employs professional medical teams with medical licenses to manage the Group's products and medical service quality by the standard of hospital management. We also actively ensure the quality of our services through internal controls and are committed to providing medical services that meet international industry standards. We have also been maintaining communication with our customers to ensure that we understand and cater to their needs and expectations. We also expect to grasp the degree of satisfaction of our customers so as to continuously improve our service quality.

According to the Regulation on the Administration of Medical Institutions and its provisions of implementation rules, all our medical institutions can only operate subject to obtaining "The Practice License of Medical Institutions". At the same time, we also actively comply with consumer protection laws and regulations including but not limited Trade Descriptions Regulations in Hong Kong, Bad Advertising (Medicine) Regulations, Personal Data (Privacy) Regulations and the Regulations for the Supervision and Administration of Medical Devices, the Law of the People's Republic of China on the Protection of Consumer Rights and Interests, Advertising Law of the People's Republic of China, and Measures for the Administration of Medical Advertisements in Mainland China.

QUALITY OF MEDICAL SERVICE

The Group provides professional, high-quality and highly efficient services to different customers in various ways, actively creates value for customers, concerns, explores and responds to customer needs, and strives to provide customers with services beyond their expectations.



B. SOCIAL *(CONTINUED)*

B6. PRODUCT RESPONSIBILITY *(CONTINUED)*

QUALITY OF MEDICAL SERVICE *(CONTINUED)*

In order to maintain service quality, the Group has formulated the “Policy on the Medical Quality and Safety Training” for medical centres. Through employees’ training, especially continuous training for medical staff, we guarantee the quality and safety of medical services we provide to our customers, and improve our staff’s professional standards, details of which are elaborated in the section headed “Occupational Safety Training” under aspect B2 and the section headed “Training Courses” under aspect B3.

In addition, the Group joined the Guangzhou Bioindustry Alliance, which is a local and non-profit social organization voluntarily formed by upstream and downstream enterprises in the city’s biological industry chain, scientific research institutes, high schools, industry organizations, medical institutions, and investment and financing institutions, with an objective of integration of “government, enterprises, institutions, researchers and users”, focusing on the significant needs of industry development. With the government guidance and socialization to improve the biological ecological chain and promote the development of bio-pharmaceutical industry. The Group has joined the Alliance, which aims to leverage the group of top and highly influential expert consultants and university research resources backed by the Alliance platform so as to further consolidate our technological advantages and provide customers with more professional and qualified medical service.

CUSTOMER SERVICE

FEEDBACK COLLECTION AND RESEARCH

The Group has a dedicated customer service function to collect and analyze customer feedback. Through active extension of services and communication, Customer Service Division becomes an important constituent to ensure patients’ positive experience. We conduct customer satisfaction surveys through questionnaires, and understand the customer experience and satisfaction according to the results so as to put in place a service quality monitoring system.

The Group also cooperates with third parties from time to time to conduct comprehensive surveys, analysis and studies, so as to organize, analyze and study relevant information on customer experience and satisfaction obtained from the above methods, thus demonstrating the improvement of our medical service standards.

COMPLAINT MANAGEMENT

Customers can file complaints by mail, telephone, or in person. The Group is committed to solving all patient complaints in the shortest time or on the spot (where applicable). For material complaints that involve clinical safety or may affect health, the Group will immediately take actions to prevent or minimize the adverse impact on customers. We require that every complaint should be properly submitted to and handled by the responsible personnel and manager and prohibit staff from reaching a private settlement with the complainant.

B. SOCIAL *(CONTINUED)*

B6. PRODUCT RESPONSIBILITY *(CONTINUED)*

CUSTOMER PRIVACY PROTECTION

The Group strictly and carefully manages customer files to avoid leakage of customer privacy. The Group strictly abides by laws and regulations such as the Protection of State Secrets of the People's Republic of China and Regulations on the Administration of the Secret Management of State Secret Carriers and other laws and regulations. We are committed to implementing stringent security protection measures on customer personal data collected during business operations to ensure that customer personal data is not leaked out and misused.

The Group strictly manages the enquiry, usage and downloading of customer privacy information in the information system to effectively prevent data leakage and abuse. Customer information and customer data must not be sold, shared, or disclosed for any purpose, and every employee must protect customer information and data in accordance with the Group's regulations. Our conversations with customers, transaction history, documents and reports provided by them (if not for public) will be kept confidential, and disclosure of customer information to third parties without customer authorization is strictly prohibited. At the same time, customers always have the right to review and modify their information. We are firmly committed to protecting the privacy of our customers, thereby earning their trust and confidence, maintaining the Group's market competitiveness, and driving the Group's sustainable business development and service quality assurance.

ADVERTISING AND LABELLING

In order to ensure that the label of the Group's products conforms to the actual situation of the product, the Group strictly abides by relevant laws and regulations on advertising and marketing, such as the Advertising Law of the People's Republic of China, formulates and implements relevant systems to supervise advertising and marketing, and strictly reviews publicly released promotional materials and sales commitments, so as to prevent misleading or misleading publicity content and protect customers' consumer rights from being infringed.

The Group requires that all publicity content such as external image display, event publicity, and marketing publicity of all units, institutions, and subordinate projects must be approved by deputy leader before it can be produced and released externally, so as to avoid any form of false publicity and to ensure the content truthfulness and accuracy of the publicity.



B. SOCIAL (CONTINUED)

B7. ANTI-CORRUPTION

PREVENT CORRUPTION AND FRAUD

The Group believes that a clean corporate culture is the key to our continued success. Therefore, we attach great importance to anti-corruption work and system building, commit ourselves to building a clean and transparent corporate culture, and pay special attention to the professional ethics of hospital staff. We strictly comply with the relevant laws and regulations, including but not limited to the Prevention of Bribery Ordinance in Hong Kong and the Company Law of the People's Republic of China, Bidding Law of the People's Republic of China, and Interim Provisions on Banning Commercial Bribery in Mainland China. In addition, we strictly comply with the relevant medical laws and regulations formulated by Chinese government departments, including the "Code of Conduct for the Practitioners of Medical Institutions", the "Notice on Printing and Circulating of "Nine Prohibitions" for Enhancing the Construction of Medical Health Industry Style", and the "Notice of the Ministry of Health on Issuing the Provisions on the Establishment of Commercial Bribery Record in the Purchase and Sales Medicines" etc. We implement a zero-tolerance policy on any accepted bribery of medical personnel. Any employee found to violate our anti-corruption and bribery policies will be dismissed.

During the Year, the Group did not identify any material non-compliance of laws and regulations in respect of the prevention of bribery, blackmail, fraud and money laundering.

B8. COMMUNITY INVESTMENT

CORPORATE SOCIAL RESPONSIBILITY

The Group believes that corporation is a social cell that grows with the nurturing of social maternity while shoulders the responsibility of returning to society. As a responsible medical service operator, the Group has always been committed to supporting various public welfare and community activities and hopes to give back to the community through the medical profession. The Group actively fulfills its social responsibilities as a corporate citizen and cultivates its employees' sense of social responsibility. Therefore, the Group encourages employees to participate in charity activities during their work and private time to make greater contributions to society. It has also been arranging for the Group's staff to participate in activities such as charity events related to environmental issues, donations for students and social services. We believe that through personally participating in activities that contribute to the community, employees' civic awareness can be raised to establish the correct values.

THE ESG REPORTING GUIDE CONTENT INDEX OF THE STOCK EXCHANGE OF HONG KONG LIMITED

Subject Areas, Aspects, General Disclosures and KPIs

| | Description | Section/Declaration | Page |
|--------------------------------|--|---|------|
| Aspect A1: Emissions | | | |
| General Disclosure | Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to Exhaust Gas and GHG emissions, discharges into water and land, and generation of hazardous and non-hazardous waste. | Emissions – Environmental Protection Policy and Compliance Issues | P.58 |
| KPI A1.1 (“comply or explain”) | The types of emissions and respective emissions data. | Emissions – Exhaust Gas Emissions, GHG Emissions, Wastes Management | P.59 |
| KPI A1.2 (“comply or explain”) | GHG emissions in total (in tonnes) and intensity. | Emissions – GHG Emissions | P.60 |
| KPI A1.3 (“comply or explain”) | Total hazardous waste produced (in tonnes) and intensity. | Emissions – Wastes Management | P.62 |
| KPI A1.4 (“comply or explain”) | Total non-hazardous waste produced (in tonnes) and intensity. | Emissions – Wastes Management | P.63 |
| KPI A1.5 (“comply or explain”) | Description of measures to mitigate emissions and results achieved. | Emissions – Exhaust Gas, GHG Emissions, Wastes Management | P.59 |
| KPI A1.6 (“comply or explain”) | Description of how hazardous and non-hazardous wastes are handled, reduction initiatives and results achieved. | Emissions – Wastes Management | P.61 |



THE ESG REPORTING GUIDE CONTENT INDEX OF THE STOCK EXCHANGE OF HONG KONG LIMITED *(CONTINUED)*

Subject Areas, Aspects, General Disclosures and KPIs

| | Description | Section/Declaration | Page |
|---|---|--|------|
| Aspect A2: Use of Resources | | | |
| General Disclosure | Policies on the efficient use of resources, including energy, water and other raw materials. | Use of Resources | P.63 |
| KPI A2.1 (“comply or explain”) | Direct and/or indirect energy consumption by type in total and intensity. | Use of Resources – Energy Consumption | P.64 |
| KPI A2.2 (“comply or explain”) | Water consumption in total and intensity. | Use of Resources – Water Consumption | P.65 |
| KPI A2.3 (“comply or explain”) | Description of energy use efficiency initiatives and results achieved. | Use of Resources – Energy Consumption | P.63 |
| KPI A2.4 (“comply or explain”) | Description of whether there is any issue in sourcing water that is fit for purpose, water efficiency initiatives and results achieved. | Use of Resources – Water Consumption | P.64 |
| KPI A2.5 (“comply or explain”) | Total packaging material used for finished products (in tonnes) and with reference to per unit produced. | Use of Resources – Use of Packaging Materials (Not applicable-explained) | P.65 |
| Aspect A3: The Environment and Natural Resources | | | |
| General Disclosure | Policies on minimising the issuer’s significant impact on the environment and natural resources. | The Environment and Natural Resources | P.65 |
| KPI A3.1 (“comply or explain”) | Description of the significant impacts of activities on the environment and natural resources and the actions taken to manage them. | The Environment and Natural Resources – Indoor Working Environment | P.65 |

THE ESG REPORTING GUIDE CONTENT INDEX OF THE STOCK EXCHANGE OF HONG KONG LIMITED *(CONTINUED)*

Subject Areas, Aspects, General Disclosures and KPIs

Description

Section/Declaration

Page

Aspect B1: Employment

| | | | |
|--------------------------------------|---|--|------|
| General Disclosure | Information on: (a) the policies; and (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. | Employment – Recruitment, Promotion, Incentive and Dismissal, Remuneration and Benefits, Equal Opportunity | P.66 |
| KPI B1.1 (Recommended Disclosure) | Total workforce by gender, employment type, age group and geographical region. | Employment | P.66 |

Aspect B2: Health and Safety

| | | | |
|--------------------------------------|---|---|------|
| General Disclosure | Information on: (a) the policies; and (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. | Health and Safety – Internal Health and Safety Management, Occupational Safety Training | P.69 |
| KPI B2.1 (Recommended Disclosure) | Number and rate of work-related fatalities. | Health and Safety | P.69 |
| KPI B2.2 (Recommended Disclosure) | Lost days due to work injury. | Health and Safety | P.69 |



THE ESG REPORTING GUIDE CONTENT INDEX OF THE STOCK EXCHANGE OF HONG KONG LIMITED *(CONTINUED)*

Subject Areas, Aspects, General Disclosures and

| KPIs | Description | Section/Declaration | Page |
|--|--|---|------|
| Aspect B3: Development and Training | | | |
| General Disclosure | Policies on improving employees' knowledge and skills for discharging duties at work. Description of training activities. | Development and Training – Training Management, Training Programmes | P.71 |
| KPI B3.1 (Recommended Disclosure) | The percentage of employees trained by gender and employee category (e.g. senior management, middle management). | Development and Training | P.71 |
| KPI B3.2 (Recommended Disclosure) | The average training hours completed per employee by gender and employee category. | Development and Training | P.71 |
| Aspect B4: Labour Standards | | | |
| General Disclosure | Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to preventing child and forced labour. | Labour Standards – Prevent Child and Forced Labour | P.72 |
| Aspect B5: Supply Chain Management | | | |
| General Disclosure | Policies on managing environmental and social risks of the supply chain. | Supply Chain Management – Environmental and Social Risk Management in Supply Chain, Fair and Open Procurement | P.73 |

THE ESG REPORTING GUIDE CONTENT INDEX OF THE STOCK EXCHANGE OF HONG KONG LIMITED *(CONTINUED)*

**Subject Areas, Aspects,
General Disclosures and
KPIs**

Description

Section/Declaration

Page

Aspect B6: Product Responsibility

| | | | |
|--------------------------------------|---|---|------|
| General Disclosure | Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to health and safety, advertising, labelling and privacy matters relating to products and services provided and methods of redress. | Product Responsibility – Quality of Medical Service, Customer Service, Customer Privacy Protection, Advertising and Labelling | P.74 |
| KPI B6.5 (Recommended Disclosure) | Description of consumer data protection and privacy policies, how they are implemented and monitored. | Product Responsibility – Customer Privacy Protection | P.76 |

Aspect B7: Anti-corruption

| | | | |
|--------------------|--|--|------|
| General Disclosure | Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to bribery, extortion, fraud and money laundering. | Anti-corruption – Prevent Corruption and Fraud | P.77 |
|--------------------|--|--|------|

**Aspect B8: Community
Investment**

| | | | |
|--------------------|--|--|------|
| General Disclosure | 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. | Community Investment – Corporate Social Responsibility | P.77 |
|--------------------|--|--|------|

Independent Auditors' Report



國衛會計師事務所有限公司
HODGSON IMPEY CHENG LIMITED

31/F, Gloucester Tower
The Landmark
11 Pedder Street
Central
Hong Kong

TO THE SHAREHOLDERS OF
AIDIGONG MATERNAL & CHILD HEALTH LIMITED
(FORMERLY KNOWN AS COMMON SPLENDOR INTERNATIONAL HEALTH INDUSTRY GROUP LIMITED)
(incorporated in Bermuda with limited liability)

OPINION

We have audited the consolidated financial statements of Aidigong Maternal & Child Health Limited (Formerly known as Common Splendor International Health Industry Group Limited) (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 90 to 218, which comprise the consolidated statement of financial position as at 31 December 2019, 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 2019, 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 the Hong Kong Companies Ordinance.

BASIS FOR OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSA") issued by the HKICPA. Our responsibilities under those standards are further described in the Auditors' 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 year. 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.

Key Audit Matters

How our audit address the key audit matters

Accounting for business combination

Refer to notes 3 and 41 in the Group's consolidated financial statements.

On 13 September 2019, the Group completed the acquisition of 88.5184% equity interest (the "Step-up Acquisition") in Shenzhen Aidigong Maternity Health Management Co., Ltd. and its subsidiaries (the "Shenzhen Aidigong Group"). The total consideration was approximately HK\$968,209,000 and the fair value of net assets acquired from the business combination was approximately HK\$671,342,000. As a result, the Group has recognised intangible assets, goodwill and contingent consideration payable of approximately HK\$611,416,000, HK\$398,903,000 and HK\$320,304,000 respectively in its consolidated statement of financial position. The acquisition requires the identification of assets acquired and the liabilities assumed and the consideration measured at their acquisition-date fair values, which require significant management judgement. Independent external valuations were obtained in order to support management estimates.

Our procedures in relation to the management's accounting for business combination included:

- Reviewing relevant contracts related to the acquisition and evaluating management's process to identify intangible assets, goodwill and contingent consideration payable;
- Evaluating of the independent external valuers' competence, capabilities and objectivity;
- Assessing the methodologies used and the appropriateness of the key assumptions based on our knowledge of the relevant industry and using our valuation experts; and
- Checking, on sampling basis, the accuracy and relevance of the input data used.

We found the acquisition-date fair values of the identifiable assets acquired and the liabilities assumed and the consideration are supported by the available evidence.



| Key Audit Matters | How our audit address the key audit matters |
|--|---|
| Impairment assessment of intangible assets and goodwill | |
| <p>Refer to notes 3, 18 and 19 in the Group's consolidated financial statements.</p> <p>As at 31 December 2019, the Group had intangible assets and goodwill of approximately HK\$822,952,000 and HK\$627,529,000 respectively.</p> <p>In deciding whether the intangible assets and goodwill were impaired or not, these assets were allocated to cash generating units ("CGUs") of postpartum care services and health industry segments, and the recoverable amount of the CGU was determined by management and valuer based on value-in-use calculations using cash flow projections. In carrying out the impairment assessments, significant management judgement was involved in respect of the discount rates and the underlying cash flows. Management has concluded that there is no impairment in respect of the intangible assets and goodwill. Independent external valuations were obtained in order to support management estimates.</p> | <p>Our procedures in relation to management's impairment assessment of the Group's key businesses included:</p> <ul style="list-style-type: none">• Evaluating the independent valuer's competence, capabilities and objectivity;• Assessing management's identification of CGUs based on the Group's accounting policies and our understanding of the Group's business;• Assessing the methodologies used and the appropriateness of the key assumptions based on our knowledge of the business and the relevant industry;• Challenging the reasonableness of key assumptions based on our knowledge of the business and industry; and• Checking, on a sampling basis, the accuracy and relevance of the input data used. <p>We found that the key assumptions were supported by the available evidence.</p> |

Key Audit Matters

How our audit address the key audit matters

Impairment assessment of interests in associates

Refer to notes 3 and 20 in the Group's consolidated financial statements.

As at 31 December 2019, the Group has interests in associates of approximately HK\$191,561,000. Management performed impairment assessment and concluded that an impairment loss on interest in associates of approximately HK\$13,034,000 was recognised in respect of seahorse breeding business. This conclusion was based on value in use model that required significant management judgement with respect to the discount rate and the underlying cash flows, in particular future revenue growth and capital expenditure. Independent external valuation was obtained in order to support management's estimates.

Our procedures in relation to management's impairment assessment included:

- Evaluating the independent valuer's competence, capabilities and objectivity;
- Assessing the methodologies used and the appropriateness of the key assumptions based on our knowledge of the business and the relevant industry;
- Challenging the reasonableness of key assumptions based on our knowledge of the business and industry; and
- Checking on a sampling basis, the accounting and relevance of the input data used.

We found the key assumptions were supported by the available evidence.



OTHER INFORMATION

The directors are responsible for the other information. The other information comprises the information included in the annual report, but does not include the consolidated financial statements and our auditors' report thereon ("Other Information").

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 the Other Information, we are required to report that fact. We have nothing to report in this regard.

RESPONSIBILITIES OF THE DIRECTORS AND THE AUDIT COMMITTEE 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 the consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

The Audit Committee is responsible for overseeing the Group's financial reporting process.

AUDITORS' 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 auditors' 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 Auditors' Report *(Continued)*

As part of an audit in accordance with HKSAAs, 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 auditors' 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 auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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



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

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 year and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement director on the audit resulting in this independent auditors' report is Ng Ka Wah.

HLB Hodgson Impey Cheng Limited

Certified Public Accountants

Ng Ka Wah

Practising Certificate Number: P06417

Hong Kong, 11 May 2020

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2019

| | Notes | 2019 HK\$'000 | 2018 HK\$'000 |
|--|-------|------------------|------------------|
| Revenue | 7 | 610,612 | 377,035 |
| Cost of sales | | (419,031) | (279,492) |
| Gross profit | | 191,581 | 97,543 |
| Other income | 9 | 10,219 | 3,627 |
| Administrative expenses | | (89,081) | (64,005) |
| Selling and distribution expenses | | (37,906) | (1,318) |
| Share of result of associates | | 8,351 | 17,371 |
| Profit from operations | | 83,164 | 53,218 |
| Impairment loss recognised in respect of interest in an associate | 20 | (13,034) | – |
| Fair value change on derivative financial liabilities | | – | (2,438) |
| Loss on fair value change of contingent consideration payable | | (5,821) | – |
| Gain on disposal of an associate | 20 | 16,625 | – |
| Loss on deemed disposal of associates | | – | (571) |
| Gain on derecognition of convertible note | | – | 7,391 |
| Finance cost | 10 | (44,808) | (37,724) |
| Profit before income tax | 11 | 36,126 | 19,876 |
| Income tax expense | 13 | (19,039) | (8,768) |
| Profit for the year | | 17,087 | 11,108 |
| Other comprehensive income/(expense), net of income tax | | | |
| <i>Items that may be reclassified subsequent to profit or loss</i> | | | |
| Share of other comprehensive expense of associates | | (985) | (2,437) |
| Exchange differences on translating foreign operations | | (26,338) | (24,880) |
| <i>Items that will not be reclassified to profit or loss</i> | | | |
| Change in value of equity investments at fair value through other comprehensive income | | 24,352 | 2,067 |
| Other comprehensive expense for the year, net of income tax | | (2,971) | (25,250) |
| Total comprehensive income/(expense) for the year | | 14,116 | (14,142) |

Consolidated Statement of Profit or Loss and Other Comprehensive Income *(Continued)*

For the year ended 31 December 2019



| | <i>Notes</i> | 2019 HK\$'000 | 2018 HK\$'000 |
|--|--------------|--------------------------------|------------------|
| Profit for the year attributable to: | | | |
| Owners of the Company | | 11,237 | 2,160 |
| Non-controlling interests | | 5,850 | 8,948 |
| | | 17,087 | 11,108 |
| Total comprehensive income/(expense) for the year attributable to: | | | |
| Owners of the Company | | 7,815 | (12,988) |
| Non-controlling interests | | 6,301 | (1,154) |
| | | 14,116 | (14,142) |
| Earnings per share for the year attributable to owners of the Company | | | |
| Basic and diluted (HK cents per share) | <i>15</i> | 0.35 | 0.07 |

Consolidated Statement of Financial Position

As at 31 December 2019

| | Notes | 2019 HK\$'000 | 2018 HK\$'000 |
|--|-------|------------------|------------------|
| Non-current assets | | | |
| Property, plant and equipment | 16 | 211,125 | 30,106 |
| Right-of-use assets | 17 | 331,780 | – |
| Intangible assets | 18 | 822,952 | 214,288 |
| Goodwill | 19 | 627,529 | 229,010 |
| Interests in associates | 20 | 191,561 | 223,789 |
| Equity investments at fair value through other comprehensive income | 22 | 24,500 | 77,684 |
| Deposits, prepayments and other receivables | 23 | 43,159 | 111,350 |
| Deferred tax assets | 34 | 6,517 | – |
| | | 2,259,123 | 886,227 |
| Current assets | | | |
| Deposits, prepayments and other receivables | 23 | 254,057 | 135,266 |
| Trade receivables | 24 | 34,987 | 31,351 |
| Inventories | 25 | 35,918 | 29,062 |
| Loan to a shareholder | 27 | 45,443 | 28,574 |
| Properties under development | 26 | 246,106 | 209,174 |
| Short-term loans receivable | 28 | 34,733 | 40,048 |
| Financial assets at fair value through profit or loss | 29 | 146,164 | – |
| Bank and cash balances | 29 | 80,098 | 8,016 |
| | | 877,506 | 481,491 |
| Current liabilities | | | |
| Trade payables | 30 | 21,419 | 442 |
| Accruals and other payables | 31 | 119,993 | 35,574 |
| Contract liabilities | 31 | 225,934 | 87,227 |
| Obligation under finance leases | 32 | – | 367 |
| Lease liabilities | 17 | 77,012 | – |
| Contingent consideration payable | 41 | 208,613 | – |
| Bank and other borrowings | 36 | 106,727 | 16,138 |
| Guaranteed notes and bonds payable | 35 | 32,616 | 213,209 |
| Tax payable | | 24,596 | 2,811 |
| | | 816,910 | 355,768 |
| Net current assets | | 60,596 | 125,723 |
| Total assets less current liabilities | | 2,319,719 | 1,011,950 |

Consolidated Statement of Financial Position (Continued)

As at 31 December 2019



| | Notes | 2019 HK\$'000 | 2018 HK\$'000 |
|--|-------|------------------|------------------|
| Capital and reserves | | | |
| Share capital | 33 | 38,309 | 29,962 |
| Reserves | | 1,065,100 | 720,535 |
| Equity attributable to owners of the Company | | 1,103,409 | 750,497 |
| Non-controlling interest | | 203,398 | 211,730 |
| Total equity | | 1,306,807 | 962,227 |
| Non-current liabilities | | | |
| Contingent consideration payable | 41 | 117,203 | – |
| Deferred tax liabilities | 34 | 167,572 | 15,157 |
| Obligation under finance leases | 32 | – | 983 |
| Bank borrowings | 36 | 374,738 | – |
| Lease liabilities | 17 | 264,478 | – |
| Guaranteed notes and bonds payable | 35 | 88,921 | 33,583 |
| | | 1,012,912 | 49,723 |
| | | 2,319,719 | 1,011,950 |

The consolidated financial statements were approved and authorised for issue by the Board of Directors of the Company on 11 May 2020 and are signed on its behalf by:

Zhu Yufei
Joint Chairman

Cheung Wai Kuen
Joint Chairman

The accompanying notes form an integral part of these consolidated financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31 December 2019

| | Attributable to owners of the Company | | | | | | | | Non controlling interests HK\$'000 | Total equity HK\$'000 |
|---|---------------------------------------|------------------------------|------------------------------------|---|----------------------------------|------------------------------|----------------------------------|-----------------------|---|-----------------------------|
| | Share capital HK\$'000 | Share premium HK\$'000 | Translation reserve HK\$'000 | Equity investment at fair value through other comprehensive income reserve HK\$'000 | Statutory reserve HK\$'000 | Other reserve HK\$'000 | Retained earnings HK\$'000 | Sub-total HK\$'000 | | |
| At 1 January 2018 | 29,962 | 681,198 | (15,246) | (1,191) | 11,130 | (49,260) | 104,393 | 760,986 | 212,536 | 973,522 |
| Profit for the year | - | - | - | - | - | - | 2,160 | 2,160 | 8,948 | 11,108 |
| Other comprehensive (expenses)/income | - | - | - | - | - | - | - | - | - | - |
| Share of other comprehensive expense of associates | - | - | (2,437) | - | - | - | - | (2,437) | - | (2,437) |
| Exchange differences on translating foreign operations arising during the year | - | - | (13,869) | - | - | - | - | (13,869) | (11,011) | (24,880) |
| Change in value of equity investments at fair value through other comprehensive income | - | - | - | 1,158 | - | - | - | 1,158 | 909 | 2,067 |
| Total comprehensive (expenses)/income for the year | - | - | (16,306) | 1,158 | - | - | 2,160 | (12,988) | (1,154) | (14,142) |
| Change in non-controlling interests arising from disposal of a subsidiary (note 42(b)) | - | - | - | - | - | 2,499 | - | 2,499 | 348 | 2,847 |
| Transfer to statutory reserve | - | - | - | - | 666 | - | (666) | - | - | - |
| At 31 December 2018 | 29,962 | 681,198 | (31,552) | (33) | 11,796 | (46,761) | 105,887 | 750,497 | 211,730 | 962,227 |
| Profit for the year | - | - | - | - | - | - | 11,237 | 11,237 | 5,850 | 17,087 |
| Other comprehensive (expenses)/income | - | - | - | - | - | - | - | - | - | - |
| Share of other comprehensive expense of associates | - | - | (985) | - | - | - | - | (985) | - | (985) |
| Exchange differences on translating foreign operations arising during the year | - | - | (16,074) | - | - | - | - | (16,074) | (10,264) | (26,338) |
| Change in value of equity investments at fair value through other comprehensive income | - | - | - | 13,637 | - | - | - | 13,637 | 10,715 | 24,352 |
| Total comprehensive (expenses)/income for the year | - | - | (17,059) | 13,637 | - | - | 11,237 | 7,815 | 6,301 | 14,116 |
| Proceeds from share subscription (note 33) | 5,000 | 195,000 | - | - | - | - | - | 200,000 | - | 200,000 |
| Proceeds from placing (note 33) | 3,347 | 140,517 | - | - | - | - | - | 143,864 | - | 143,864 |
| Share issue costs | - | (1,688) | - | - | - | - | - | (1,688) | - | (1,688) |
| Transfer upon step-up acquisition (note 41) | - | - | - | (13,604) | - | - | 13,604 | - | - | - |
| Change in non-controlling interests arising from acquisition of a subsidiary (note 42(a)) | - | - | - | - | - | 2,921 | - | 2,921 | (14,633) | (11,712) |
| Transfer to statutory reserve | - | - | - | - | 3,285 | - | (3,285) | - | - | - |
| At 31 December 2019 | 38,309 | 1,015,027 | (48,611) | - | 15,081 | (43,840) | 127,443 | 1,103,409 | 203,398 | 1,306,807 |

Consolidated Statement of Changes in Equity *(Continued)*

For the year ended 31 December 2019



SHARE PREMIUM

The application of share premium is governed by Section 40 of the Companies Act 1981 of Bermuda (as amended). The share premium account may be distributed in the form of fully paid bonus shares.

TRANSLATION RESERVE

Exchange differences relating to the translation of the net assets of the Group's foreign operations from their functional currencies to the Group's presentation currency (Hong Kong dollars ("HK\$")) are recognised directly in other comprehensive income and accumulated in the translation reserve. Such exchange differences accumulated in the translation reserve are reclassified to profit or loss on the disposal of the foreign operations.

STATUTORY RESERVE

The statutory reserve of the Group refers to the statutory reserve fund in the People's Republic of China (the "PRC"). Appropriations to such reserve fund are made out of profit after tax as recorded in the statutory financial statements of the PRC subsidiaries. The amount should not be less than 10% of the profit after tax as recorded in the statutory financial statements unless the aggregate amount exceeds 50% of the registered capital of the PRC subsidiaries. The statutory reserve can be used to make up prior year losses, if any, and can be applied in conversion into the PRC subsidiaries' capital by means of capitalisation issue.

SHARE OPTIONS RESERVE

The share options reserve comprises the fair value of the share options granted which are yet to be exercised. The amount will either be transferred to the share premium account when the related options are exercised, or be transferred to retained profit when the related options being lapsed.

OTHER RESERVE

Other reserve represents the difference between the consideration paid to obtain additional non-controlling interests in subsidiaries and its carrying amount on the date of acquisition.

Consolidated Statement of Cash Flows

For the year ended 31 December 2019

| | Notes | 2019 HK\$'000 | 2018 HK\$'000 |
|---|-------|------------------|------------------|
| Cash flows from operating activities | | | |
| Profit before tax | | 36,126 | 19,876 |
| Adjustments for: | | | |
| Interest income from loans receivable | 7 | (7,279) | (12,265) |
| Bank interest income | 9 | (59) | (6) |
| Interest income from financial assets at fair value through profit or loss | 9 | (3,199) | – |
| Interest expense | 10 | 44,808 | 37,724 |
| Depreciation of property, plant and equipment | 16 | 24,747 | 14,229 |
| Depreciation of right-of-use assets | 17 | 29,831 | – |
| Written-off of property, plant and equipment | 16 | 1,450 | 730 |
| Allowance for/(reversal of) expected credit losses of trade receivables | 24 | 1,021 | (30) |
| Allowance for expected credit losses of other receivables | 23 | 6,021 | 3,702 |
| Allowance for/(reversal of) expected credit losses of loan to a shareholder | 27 | 27 | (46) |
| Allowance for expected credit losses of short-term loans receivable | 28 | 336 | – |
| Gain on disposal of associates | 20 | (16,625) | – |
| Loss on deemed disposal of an associate | 20 | – | 571 |
| Loss on fair value change of contingent consideration payable | | 5,821 | – |
| Share of result of associates | | (8,351) | (17,371) |
| Impairment loss recognised in respect of interest in an associate | 20 | 13,034 | – |
| Gain on derecognition of convertible note | | – | (7,391) |
| Gain on fair value change of financial assets at fair value through profit or loss | 9 | (631) | – |
| Fair value change on derivative financial instruments | | – | 2,438 |
| Operating cash flows before movements in working capital | | 127,078 | 42,161 |
| Increase in trade receivables | | (4,047) | (17,968) |
| Increase in inventories | | (2,735) | (23,970) |
| Increase in deposits, prepayment and other receivables | | (80,497) | (20,214) |
| (Increase)/decrease in loan to a shareholder | | (15,924) | 20,615 |
| Decrease in short-term loans receivable | | 4,979 | – |
| Increase/(decrease) in trade payables | | 568 | (420) |
| (Decrease)/increase in contract liabilities | | (46,416) | 87,227 |
| Increase/(decrease) in accruals and other payables | | 28,208 | (48,660) |
| Cash generated from operating activities | | 11,214 | 38,771 |
| Interest received | | 5,756 | 12,271 |
| Income tax paid | | (16,863) | (10,480) |
| Net cash generated from operating activities | | 107 | 40,562 |

Consolidated Statement of Cash Flows (Continued)

For the year ended 31 December 2019



| | Notes | 2019 HK\$'000 | 2018 HK\$'000 |
|---|-------|------------------|------------------|
| Cash flows from investing activities | | | |
| Purchase of property, plant and equipment | 16 | (17,023) | (25,531) |
| Purchase of financial assets at fair value through profit or loss | | (145,533) | – |
| Disposal of financial assets at fair value through profit or loss | | 210,676 | – |
| Dividend received from an associate | 20 | 732 | 1,325 |
| Proceeds from disposal of associates | 20 | 19,520 | – |
| Net cash outflow on acquisition of subsidiaries | 41 | (605,822) | – |
| Acquisition of non-controlling interests | 42 | (11,712) | – |
| Net cash inflow from disposal of partial interest in a subsidiary | 42 | – | 2,847 |
| Net cash used in investing activities | | (549,162) | (21,359) |
| Cash flows from financing activities | | | |
| Proceeds from issue of guaranteed notes and bonds, net of related expenses | | 84,462 | 8,028 |
| Repayment of borrowings and bonds | | (230,438) | (65,004) |
| Interest paid | | (37,687) | (19,307) |
| Proceeds from share subscription | 33 | 200,000 | – |
| Proceeds from placing | 33 | 143,864 | – |
| Share issuance costs related to placing and subscription | | (1,688) | – |
| Repayment of convertible notes | | – | (1,000) |
| Proceeds from bank and other borrowings | | 481,465 | 11,138 |
| Addition of obligation under a finance lease | | – | 1,500 |
| Repayment of obligation under a finance lease | | – | (181) |
| Capital element of lease rentals paid | | (17,298) | – |
| Net cash generated from/(used in) financing activities | | 622,680 | (64,826) |
| Net increase/(decrease) in cash and cash equivalents | | 73,625 | (45,623) |
| Cash and cash equivalents at the beginning of the year | | 8,016 | 67,038 |
| Effect of foreign exchange rate changes | | (1,543) | (13,399) |
| Cash and cash equivalents at the end of the year | | 80,098 | 8,016 |
| Analysis of the balance of cash and cash equivalents | | | |
| Bank and cash balances | | 80,098 | 8,016 |

Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

1. GENERAL INFORMATION

The Company is an exempted company incorporated in Bermuda with limited liability and shares of the Company are listed on The Stock Exchange of Hong Kong Limited ("Stock Exchange"). The directors of the Company consider its parent and ultimate holding company is Champion Dynasty Limited (a company incorporated in the British Virgin Islands with limited liability). Its ultimate controlling party is Mr. Cheung Wai Kuen, who is also the joint chairman and managing director of the Company. The addresses of the Company's registered office and principal office in Hong Kong are disclosed in the "Corporate Information" section of the annual report.

The consolidated financial statements are presented in Hong Kong dollars ("HK\$"), which is the same as the functional currency of the Company and all values are rounded to the nearest thousand (HK\$'000) except otherwise indicated.

The Company's principal activity is investment holding and the principal activities of its principal subsidiaries are set out in note 48.

2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

(A) NEW AND AMENDMENTS TO HKFRSs THAT ARE MANDATORILY EFFECTIVE FOR THE CURRENT YEAR

The Group has applied the following new and amendments to HKFRSs (the "New and Amendments to HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") for the first time in the current year:

| | |
|-----------------------|--|
| HKFRS 16 | Leases |
| HK(IFRIC) – Int 23 | Uncertainty over Income Tax Treatments |
| Amendments to HKFRS 9 | Prepayment Features with Negative Compensation |
| Amendments to HKAS 19 | Plan Amendment, Curtailment or Settlement |
| Amendments to HKAS 28 | Long-term Interests in Associates and Joint Ventures |
| Amendments to HKFRSs | Annual Improvements to HKFRSs 2015-2017 Cycle |

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



2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”) *(CONTINUED)*

(A) NEW AND AMENDMENTS TO HKFRSs THAT ARE MANDATORILY EFFECTIVE FOR THE CURRENT YEAR (CONTINUED)

HKFRS 16 LEASES

TRANSITION AND SUMMARY OF EFFECTS ARISING FROM INITIAL APPLICATION OF HKFRS 16

On 1 January 2019, the Group has applied HKFRS 16. HKFRS 16 superseded HKAS 17, and the related interpretations. The Group applied the HKFRS 16 in accordance with the transition provisions of HKFRS 16.

DEFINITION OF A LEASE

The Group has elected the practical expedient to apply HKFRS 16 to contracts that were previously identified as leases applying HKAS 17 and HKFRIC – Int 4 Determining whether an Arrangement contains a Lease and not apply this standard to contracts that were not previously identified as containing a lease. Therefore, the Group has not reassessed contracts which already existed prior to the date of initial application.

For contracts entered into or modified on or after 1 January 2019, the Group applies the definition of a lease in accordance with the requirements set out in HKFRS 16 in assessing whether a contract contains a lease.

AS A LESSOR

During the year ended 31 December 2019, application of HKFRS 16 by the Group as a lessor has no material impact on the Group’s consolidated financial statements.

AS A LESSEE

The Group has applied HKFRS 16 retrospectively with the cumulative effect recognised at the date of initial application, 1 January 2019. As at 1 January 2019, the Group recognised additional lease liabilities and right-of-use assets at amounts equal to the related lease liabilities adjusted by any prepaid or accrued lease payments by applying HKFRS 16.C8(b)(ii) transition. Any difference at the date of initial application is recognised in the opening retained earnings and comparative information has not been restated.

Notes to the Consolidated Financial Statements *(Continued)*

For the year ended 31 December 2019

2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”) *(CONTINUED)*

(A) NEW AND AMENDMENTS TO HKFRSs THAT ARE MANDATORILY EFFECTIVE FOR THE CURRENT YEAR (CONTINUED)

HKFRS 16 LEASES *(CONTINUED)*

AS A LESSEE *(CONTINUED)*

When applying the modified retrospective approach under HKFRS 16 at transition, the Group applied the following practical expedients to leases previously classified as operating leases under HKAS 17, on lease-by-lease basis, to the extent relevant to the respective lease contracts:

- i. excluded initial direct costs from measuring the right-of-use assets at the date of initial application;
- ii. applied a single discount rate to a portfolio of leases with a similar remaining terms for similar class of underlying assets in similar economic environment. Specifically, discount rate for certain leases of properties in Hong Kong was determined on a portfolio basis;
- iii. used hindsight based on facts and circumstances as at date of initial application in determining the lease term for the Group’s leases with extension options;
- iv. elected not to recognise right-of-use assets and lease liabilities for leases with lease term ends within 12 months of the date of initial application; and
- v. relied on the assessment of whether leases are onerous by applying HKAS 37 Provisions, Contingent Liabilities and Contingent Assets as an alternative of impairment review.

On transition, the Group has made the following adjustments upon application of HKFRS 16:

When recognising the lease liabilities for leases previously classified as operating leases, the Group has applied incremental borrowing rates of the relevant group entities at the date of initial application. The incremental borrowing rate applied by relevant group entities was 6.16%.

Notes to the Consolidated Financial Statements *(Continued)*

For the year ended 31 December 2019



2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”) *(CONTINUED)*

(A) NEW AND AMENDMENTS TO HKFRSs THAT ARE MANDATORILY EFFECTIVE FOR THE CURRENT YEAR (CONTINUED)

HKFRS 16 LEASES *(CONTINUED)*

AS A LESSEE *(CONTINUED)*

| | At 1 January 2019 |
|---|------------------------------|
| <i>Notes</i> | HK\$'000 |
| Operating lease commitment as at 31 December 2018 | 19,467 |
| Less: recognition exemption –short term or low value leases | (1,693) |
| Less: total future interest expenses | (1,422) |
| Change in allocation basis between lease and non-lease components | (6,412) |
| Lease liabilities relating to operating leases recognised upon application of HKFRS 16 | 9,940 |
| Add: finance lease liabilities recognised as at 31 December 2018 <i>(b)</i> | 1,350 |
| Total lease liabilities as at 1 January 2019 | 11,290 |
| Analysed as: | |
| Current | 4,615 |
| Non-current | 6,675 |
| Total lease liabilities as at 1 January 2019 | 11,290 |

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2019

2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”) (CONTINUED)

(A) NEW AND AMENDMENTS TO HKFRSs THAT ARE MANDATORILY EFFECTIVE FOR THE CURRENT YEAR (CONTINUED)

HKFRS 16 LEASES (CONTINUED)

AS A LESSEE (CONTINUED)

The carrying amount of right-of-use assets for own use as at 1 January 2019 comprises the following:

| | Notes | Right-of-use assets HK\$'000 |
|--|-------|------------------------------------|
| Right-of-use assets relating to operating leases recognised upon application of HKFRS 16 | (a) | 9,940 |
| Amount included in property, plant and equipment under HKAS 17 | | |
| – Assets previously under finance leases | (b) | 2,444 |
| | | 12,384 |
| By class | | |
| Office equipment | | 23 |
| Motor vehicles | | 2,421 |
| Office premises | | 9,940 |
| | | 12,384 |

Notes:

- (a) The right-of-use assets in relation to leases previously classified as operating leases have been recognised at an amount equal to the amount recognised for the remaining lease liabilities relating to that lease recognised in the consolidated statement of financial position at 1 January 2019.
- (b) In relation to assets previously under finance leases, the Group recategorised the carrying amounts of the relevant assets which were still under lease as at 1 January 2019 amounting to HK\$2,444,000 as right-of-use assets. In addition, the Group reclassified the obligations under finance leases of HK\$367,000 and HK\$983,000 to lease liabilities as current and non-current liabilities respectively at 1 January 2019.



2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”) (CONTINUED)

(A) NEW AND AMENDMENTS TO HKFRSs THAT ARE MANDATORILY EFFECTIVE FOR THE CURRENT YEAR (CONTINUED)

HKFRS 16 LEASES (CONTINUED)

AS A LESSEE (CONTINUED)

The following table summarises the impacts of the adoption of HKFRS 16 on the consolidated statement of financial position at 1 January 2019. Line items that were not affected by the changes have not been included.

| | Carrying amounts previously reported as at 31 December 2018 HK\$'000 | Adjustments HK\$'000 | Carrying amounts under HKFRS 16 as at 1 January 2019 HK\$'000 |
|---|--|-------------------------|---|
| Line items in the consolidated statement of financial position impacted by the adoption of HKFRS 16 | | | |
| Non-current assets | | | |
| Property, plant and equipment | 30,106 | (2,444) | 27,662 |
| Right-of-use assets | – | 12,384 | 12,384 |
| Current liabilities | | | |
| Lease liabilities – due within one year | – | 4,615 | 4,615 |
| Obligations under finance lease | 367 | (367) | – |
| Non-current liabilities | | | |
| Lease liabilities – due over one year | – | 6,675 | 6,675 |
| Obligations under finance lease | 983 | (983) | – |

Note:

For the purpose of reporting cash flows from operating activities under indirect method for the year ended 31 December 2019, movements in working capital have been computed based on opening consolidated statement of financial position as at 1 January 2019 as disclosed above.

Notes to the Consolidated Financial Statements *(Continued)*

For the year ended 31 December 2019

2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”) *(CONTINUED)*

(B) NEW AND AMENDMENTS TO HKFRSs IN ISSUE BUT NOT YET EFFECTIVE

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

| | |
|--|--|
| HKFRS 17 | Insurance Contracts ⁴ |
| Amendments to HKFRS 3 | Definition of a Business ³ |
| Amendments to HKFRS 10 and HKAS 28 | Sale or Contribution of Assets between an Investor and its Associate or Joint Venture ¹ |
| Amendment to HKAS 1 and HKAS 8 | Definition of Material ² |
| Amendments to HKFRS 9, HKAS 39 and HKFRS 7 | Interest Rate Benchmark Reform ² |

¹ Effective for annual periods beginning on or after a date to be determined.

² Effective for annual periods beginning on or after 1 January 2020.

³ Effective for business combinations and asset acquisitions for which the acquisition date is on or after the beginning of the first annual period beginning on or after 1 January 2020.

⁴ Effective for annual periods beginning on or after 1 January 2021.

In addition to the above new and amendments to HKFRSs, a revised “Conceptual Framework for Financial Reporting” was issued in 2018. Its consequential amendments, the “Amendments to References to the Conceptual Framework” in HKFRS Standards, will be effective for annual periods beginning on or after 1 January 2020. The directors anticipate that the application of all other new and amendments to HKFRSs will have no material impact on the consolidated financial statements in the foreseeable future.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(A) STATEMENT OF COMPLIANCE

The consolidated financial statements have been prepared in accordance with HKFRSs, which is a collective term that includes all applicable individual HKFRSs, Hong Kong Accounting Standards (“HKASs”) and Interpretations issued by the HKICPA, and accounting principles generally accepted in Hong Kong. In addition, the consolidated financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on the Stock Exchange (the “Listing Rules”) and the Hong Kong Companies Ordinance.



3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

(B) BASIS OF PREPARATION

The consolidated financial statements have been prepared on the historical cost basis except for certain financial instrument which are measured at fair values at the end of each reporting period, as explained in the accounting policies set out below.

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

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of HKFRS 2, leasing transactions that are within the scope of HKFRS 16 (since 1 January 2019) or HKAS 17 (before application of HKFRS 16), and measurements that have some similarities to fair value but are not fair value, such as net realisable value in HKAS 2 Inventories or value in use in HKAS 36 Impairment of Assets.

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

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

(C) BASIS OF CONSOLIDATION

The consolidated financial statements incorporate the financial statements of the Company and entities (including structured entities) controlled by the Group. 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.

Notes to the Consolidated Financial Statements *(Continued)*

For the year ended 31 December 2019

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

(C) BASIS OF CONSOLIDATION (CONTINUED)

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.

When the Group has less than a majority of the voting rights of an investee, it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. The Group considers all relevant facts and circumstances in assessing whether or not the Group's voting rights in an investee are sufficient to give it power, including:

- the size of the Group's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- potential voting rights held by the Group, other vote holders or other parties;
- rights arising from other contractual arrangements; and
- any additional facts and circumstances that indicate that the Group has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous patterns at previous shareholders' meetings.

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 into line with the Group's accounting policies.

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

Non-controlling interests in subsidiaries are presented separately from the Group's equity therein, which represent present ownership interests entitling their holders to a proportionate share of net assets of the relevant subsidiaries upon liquidation.



3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

(C) BASIS OF CONSOLIDATION (CONTINUED)

CHANGES IN THE GROUP'S INTERESTS IN EXISTING SUBSIDIARIES

Changes in the Group's interests in 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 and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries, including re-attribution of relevant reserves between the Group and the non-controlling interests according to the Group's and the non-controlling interests' proportionate interests.

Any difference between the amount by which the non-controlling interests are adjusted, and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company.

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

Notes to the Consolidated Financial Statements *(Continued)*

For the year ended 31 December 2019

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

(D) BUSINESS COMBINATIONS

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

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

- deferred tax assets or liabilities and liabilities or assets related to employee benefit arrangements are recognised and measured in accordance with HKAS 12 and HKAS 19 respectively;
- liabilities or equity instruments related to share-based payment arrangement 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 at the acquisition date;
- assets (or disposal groups) that are classified as held for sale in accordance with HKFRS 5 are measured in accordance with that Standard; and
- lease liabilities are recognised and measured at the present value of the remaining lease payments (as defined in HKFRS 16) as if the acquired leases were new leases at the acquisition date, except for leases for which (a) the lease term ends within 12 months of the acquisition date; or (b) the underlying asset is of low value. 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 reassessment, 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 entity's net assets in the event of liquidation may be initially measured either at fair value or at the non-controlling interests' proportionate share of the recognised amounts of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction by transaction basis. Other types of non-controlling interests are measured at their fair value or, when applicable, on the basis specified in another HKFRS.



3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

(D) BUSINESS COMBINATIONS (CONTINUED)

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

The subsequent accounting for changes in the fair value of the contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or a liability is remeasured at subsequent reporting dates in accordance with the corresponding gain or loss being recognised in profit or loss.

When a business combination is achieved in stages, the Group’s previously held equity interest in the acquiree is remeasured to fair value at the acquisition date (i.e. the date when the Group obtains control), and the resulting gain or loss, if any, is recognised in profit or loss or other comprehensive income, as appropriate. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognised in other comprehensive income and measured under HKFRS 9 would be accounted for on the same basis as would be required if the Group had disposed directly of the previously held equity interest.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted retrospectively during the measurement period, and additional assets or liabilities are recognised, to reflect new information obtained about facts and circumstances that existed at the acquisition date that, if known, would have affected the amounts recognised at that date.

(E) SEPARATE FINANCIAL STATEMENTS

Investments in subsidiaries are accounted for at cost less impairment. Cost includes direct attributable costs of investment. The results of subsidiaries are accounted for by the Company on the basis of dividend received and receivable.

Impairment testing of the investments in subsidiaries is required upon receiving a dividend from these investments if the dividend exceeds the total comprehensive income of the subsidiary in the period the dividend is declared or if the carrying amount of the investment in the separate financial statements exceeds the carrying amount in the consolidated financial statements of the investee’s net assets including goodwill.

Notes to the Consolidated Financial Statements *(Continued)*

For the year ended 31 December 2019

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

(F) GOODWILL

Goodwill arising on an acquisition of a business is carried at cost as established at the date of acquisition of the business 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 group 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 group 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 group 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 is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill and then to the other assets on a pro-rata basis based on the carrying amount of each asset in the unit (or group of cash-generating units).

On disposal of the relevant cash-generating unit or any of the cash-generating unit within the group of cash-generating units, the attributable amount of goodwill is included in the determination of the amount of profit or loss on disposal. When the Group disposes of an operation within the cash-generating unit (or a cash-generating unit within a group of cash-generating units), the amount of goodwill disposed of is measured on the basis of the relative values of the operation (or the cash-generating unit) disposed of and the portion of the cash-generating unit (or the group of cash-generating units) retained.

The Group's policy for goodwill arising on the acquisition of associates and a joint venture is described below.

(G) INTERESTS IN ASSOCIATES/JOINT VENTURES

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

A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint arrangement. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities required unanimous consent of the parties sharing control.



3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

(G) INTERESTS IN ASSOCIATES/JOINT VENTURES (CONTINUED)

The results and assets and liabilities of associates or joint venture are incorporated in the consolidated financial statements using the equity method of accounting, except when the investment, or a portion thereof, is classified as held for sale, in which case it is accounted for in accordance with HKFRS 5. The financial statements of associates and joint ventures used for equity accounting purposes are prepared using uniform accounting policies as those of the Group for like transactions and events in similar circumstances. Under the equity method, interests in associates or a joint venture is initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognise Group's share of the profit or loss and other comprehensive income of the associate or joint venture. Changes in net assets of the associate/joint venture other than profit or loss and other comprehensive income are not accounted for unless such changes resulted in changes in ownership interest held by the Group.

When the Group's share of losses of an associate or a joint venture exceeds its interest in that associate or joint venture (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate or joint venture), the Group discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate or joint venture.

An investment in an associate or a joint venture is accounted for using the equity method from the date on which the investee becomes an associate or a joint venture. On acquisition of the investment in an associate or a joint venture, any excess of the cost of the investment over the Group's share of the net fair value of the identifiable assets and liabilities of the investee is recognised as goodwill, which is included within the carrying amount of the investment. Any excess of the Group's share of the net fair value of the identifiable assets and liabilities over the cost of the investment, after reassessment, is recognised immediately in profit or loss in the period in which the investment is acquired.

The requirements of HKAS are applied to determine whether it is necessary to recognise any impairment loss with respect to the Group's interest in associate or joint venture. When necessary, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with HKAS 36 as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs of disposal) with its carrying amount. Any impairment loss recognised is not allocated to any assets, including goodwill, that forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with HKAS 36 to the extent that the recoverable amount of the investment subsequently increases.

Notes to the Consolidated Financial Statements *(Continued)*

For the year ended 31 December 2019

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

(G) INTERESTS IN ASSOCIATES/JOINT VENTURES (CONTINUED)

When the Group ceases to have significant influence over an associate or joint control over a joint venture, it is accounted for as a disposal of the entire interest in the investee with a resulting gain or loss being recognised in profit or loss. When the Group retains an interest in the former associate or joint venture and the retained interest is a financial asset within the scope of HKFRS 9, the Group measures the retained interest at fair value at that date and the fair value is regarded as its fair value on initial recognition. The difference between the carrying amount of the associate or joint venture and the fair value of any retained interest and any proceeds from disposing the relevant interest in the associate or joint venture is included in the determination of the gain or loss on disposal of the associate or joint venture. In addition, the Group accounts for all amounts previously recognised in other comprehensive income in relation to that associate or joint venture on the same basis as would be required if that associate or joint venture had directly disposed of the related assets or liabilities. Therefore, if a gain or loss previously recognised in other comprehensive income by that associate or joint venture would be reclassified to profit or loss on the disposal of the related assets or liabilities, the Group reclassifies the gain or loss from equity to profit or loss (as a reclassification adjustment) upon disposal/partial disposal of the relevant associate or joint venture.

When a group entity transacts with an associate or a joint venture of the Group, profits and losses resulting from the transactions with associate or joint venture are recognised in the Group's consolidated financial statements only to the extent of interests in associate or joint venture that are not related to the Group.

(H) IMPAIRMENT OF TANGIBLE AND INTANGIBLE ASSETS OTHER THAN GOODWILL

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



3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

(H) IMPAIRMENT OF TANGIBLE AND INTANGIBLE ASSETS OTHER THAN GOODWILL (CONTINUED)

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 the asset may be impaired.

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

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

When an impairment loss subsequently reverses, the carrying amount of the asset (or CGU) 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 CGU) in prior years. A reversal of an impairment loss is recognised immediately in the profit or loss.

(I) INVENTORIES

Inventories are stated at the lower of cost and net realisable value. Cost of inventories is calculated using the weighted average method. Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

(J) FINANCIAL INSTRUMENTS

Financial assets and financial liabilities are recognised in the consolidated statement of financial position when a group entity becomes a party to the contractual provisions of the instrument. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the market place.

Financial assets and financial liabilities are initially measured at fair value except for trade receivables arising from contracts with customers which are initially measured in accordance with HKFRS 15. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets or financial liabilities at fair value through profit or loss ("FVTPL")) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2019

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(J) FINANCIAL INSTRUMENTS (CONTINUED)

EFFECTIVE INTEREST METHOD

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

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

FINANCIAL ASSETS

CLASSIFICATION AND SUBSEQUENT MEASUREMENT OF FINANCIAL ASSETS

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

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

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

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

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



3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

(J) FINANCIAL INSTRUMENTS (CONTINUED)

FINANCIAL ASSETS (CONTINUED)

CLASSIFICATION AND SUBSEQUENT MEASUREMENT OF FINANCIAL ASSETS (CONTINUED)

A financial asset is classified as held for trading if:

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

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

Amortised cost and interest income

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

Equity instruments designated as at FVTOCI

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

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" line item in profit or loss.

Notes to the Consolidated Financial Statements *(Continued)*

For the year ended 31 December 2019

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

(J) FINANCIAL INSTRUMENTS (CONTINUED)

FINANCIAL ASSETS (CONTINUED)

CLASSIFICATION AND SUBSEQUENT MEASUREMENT OF FINANCIAL ASSETS (CONTINUED)

Financial assets at FVTPL

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

Financial assets at FVTPL are measured at fair value at the end of each reporting period, with any fair value gains or losses recognised in profit or loss. The net gain or loss recognised in profit or loss excludes any dividend or interest earned on the financial asset and is included in the “other income” line item.

Impairment of financial assets

The Group recognises a loss allowance for expected credit losses (“ECL”) on financial assets which are subject to impairment under HKFRS 9. The amount of ECL is updated at each reporting date to reflect changes in credit risk since initial recognition.

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

The Group recognises lifetime ECL for trade receivables arising from revenue from contracts with customers. The ECL on trade receivables from customers are assessed collectively using a provision matrix with appropriate groupings.

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

(i) Significant increase in credit risk

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



3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

(J) FINANCIAL INSTRUMENTS (CONTINUED)

FINANCIAL ASSETS *(CONTINUED)*

CLASSIFICATION AND SUBSEQUENT MEASUREMENT OF FINANCIAL ASSETS *(CONTINUED)*

Impairment of financial assets *(Continued)*

(i) Significant increase in credit risk *(Continued)*

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

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

Irrespective of the outcome of the above assessment, the Group presumes that the credit risk has increased significantly since initial recognition when contractual payments are more than 30 days past due, unless the Group has reasonable and supportable information that demonstrates otherwise.

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

Notes to the Consolidated Financial Statements *(Continued)*

For the year ended 31 December 2019

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

(J) FINANCIAL INSTRUMENTS (CONTINUED)

FINANCIAL ASSETS (CONTINUED)

CLASSIFICATION AND SUBSEQUENT MEASUREMENT OF FINANCIAL ASSETS (CONTINUED)

Impairment of financial assets (Continued)

(ii) Definition of default

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.

Irrespective of the above, the Group considers that default has occurred when a financial assets is more than 90 days past due unless the Group has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

(iii) Credit-impaired financial assets

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

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

(iv) Write-off policy

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



3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

(J) FINANCIAL INSTRUMENTS (CONTINUED)

FINANCIAL ASSETS (CONTINUED)

CLASSIFICATION AND SUBSEQUENT MEASUREMENT OF FINANCIAL ASSETS (CONTINUED)

Impairment of financial assets (Continued)

(v) Measurement and recognition of ECL

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

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

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

- Nature of financial instruments (i.e. the Group's trade receivables are assessed as a separate group);
- Past-due status;
- Nature, size and industry of debtors; and
- External credit ratings where available.

The grouping is regularly reviewed by management to ensure the constituents of each group continue to share similar credit risk characteristics.

Interest income is calculated based on the gross carrying amount of the financial asset unless the financial asset is credit-impaired, in which case interest income is calculated based on amortised cost of the financial asset.

The Group recognises an impairment gain or loss in profit or loss for all financial instruments by adjusting their carrying amount, with the exception of trade receivables other receivables, short-term loans receivable and loan to a shareholder where the corresponding adjustment is recognised through a loss allowance account.

Notes to the Consolidated Financial Statements *(Continued)*

For the year ended 31 December 2019

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

(J) FINANCIAL INSTRUMENTS (CONTINUED)

DERECOGNITION OF FINANCIAL ASSETS

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

On derecognition of a financial asset measured at amortised cost, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in profit or loss.

On derecognition of an investment in equity instrument which the Group has elected on initial recognition to measure at FVTOCI, the cumulative gain or loss previously accumulated in the investments revaluation reserve is not reclassified to profit or loss, but is transferred to retained earnings.

FINANCIAL LIABILITIES AND EQUITY INSTRUMENTS

CLASSIFICATION AS DEBT OR EQUITY

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

EQUITY INSTRUMENTS

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

Repurchase of the Company's own equity instruments is recognized and deducted directly in equity. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of the Company's own equity instruments.

FINANCIAL LIABILITIES

Financial liabilities are subsequently measured at either amortised cost using the effective interest or fair value.

FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

Financial liabilities are classified at fair value through profit or loss when the financial liability is either contingent consideration of an acquire in a business combination to which HKFRS 3 applies, held for trading or it is designated at fair value through profit or loss on initial recognition.



3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

(J) FINANCIAL INSTRUMENTS (CONTINUED)

FINANCIAL LIABILITIES AND EQUITY INSTRUMENTS (CONTINUED)

FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS (CONTINUED)

A financial liability is classified as held for trading if:

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

A financial liability other than a financial liability held for trading may be designated at fair value through profit or loss upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial liability forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and HKFRS 9 Financial Instruments: Recognition and Measurement permits the entire combined contract to be designated at fair value through profit or loss; or

Financial liabilities at fair value through profit or loss are stated at fair value, with any gains or losses arising on remeasurement recognised in profit or loss.

FINANCIAL LIABILITIES AT AMORTISED COST

Financial liabilities (including trade payables, accruals and other payables, obligation under finance leases, lease liabilities, bank and other borrowings, guaranteed notes and bonds payable) are subsequently measured at amortised cost, using the effective interest method.

Notes to the Consolidated Financial Statements *(Continued)*

For the year ended 31 December 2019

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

(J) FINANCIAL INSTRUMENTS (CONTINUED)

DERECOGNITION OF FINANCIAL LIABILITIES

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

(K) INTANGIBLE ASSETS

Intangible assets with indefinite useful lives that are acquired separately are carried at cost less accumulated impairment losses which are disclosed in note 18.

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

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

(L) PROPERTY, PLANT AND EQUIPMENT

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

The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after the property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the profit or loss in the reporting period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the property, plant and equipment, the expenditure is capitalised as an additional cost of that asset.



3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

(L) PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

The above items of property, plant and equipment, other than construction in progress, are depreciated over their estimated useful lives and after taking into account their estimated residual values, using the straight-line method, as follows:

| | |
|------------------------|--|
| Leasehold improvements | Over the shorter of lease terms and 5 years |
| Office equipment | 30% |
| Furniture and fixture | 20% |
| Computer software | 30% |
| Motor vehicle | 25% |
| Medical equipment | 10% |

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.

Buildings under construction are carried at cost, less any identified impairment losses. Depreciation of buildings commences when they are available for use (i.e. when they are in the location and condition necessary for them to be capable of operating in the manner intended by management).

Notes to the Consolidated Financial Statements *(Continued)*

For the year ended 31 December 2019

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

(M) REVENUE AND OTHER INCOME RECOGNITION

REVENUE FROM CONTRACTS WITH CUSTOMERS

Under HKFRS 15, the Group recognises revenue when (or as) a performance obligation is satisfied, i.e. when “control” of the goods or services underlying the particular performance obligation is transferred to the customer.

A performance obligation represents a good or service (or a bundle of goods or services) that is distinct or a series of distinct goods or services that are substantially the same.

Control is transferred over time and revenue is recognised over time by reference to the progress towards complete satisfaction of the relevant performance obligation if one of the following criteria is met:

- The customer simultaneously receives and consumes the benefits provided by the Group’s performance as the Group performs;
- The Group’s performance creates and enhances an asset that the customer controls as the Group performs; or
- The Group’s performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance complete to date.

Otherwise, revenue is recognised at a point in time when the customer obtains control of the distinct good or service.

A contract asset represents the Group’s right to consideration in exchange for goods or services that the Group has transferred to a customer that is not yet unconditional. It is assessed for impairment in accordance with HKFRS 9. In contrast, a receivable represents the Group’s unconditional right to consideration, i.e. only the passage of time is required before payment of that consideration is due.

A contract liability represents the group’s obligation to transfer goods or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer. A contract asset and a contract liability relating to same contract are accounted for and presented on a net basis.



3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

(M) REVENUE AND OTHER INCOME RECOGNITION (CONTINUED)

REVENUE FROM CONTRACTS WITH CUSTOMERS (CONTINUED)

For contracts that contain more than one performance obligation, the Group allocates the transaction price to each performance obligation on a relative stand-alone selling price basis.

The stand-alone selling price of the distinct good or service underlying each performance obligation is determined at contract inception. It represents the price at which the Group would sell a promised good or service separately to a customer. If a stand-alone selling price is not directly observable, the Group estimates it using appropriate techniques such that the transaction price ultimately allocated to any performance obligation reflects the amount of consideration to which the Group expects to be entitled in exchange for transferring the promised goods or services to the customer.

(I) SALES OF NATURAL HEALTH FOOD AND PHARMACEUTICAL PRODUCTS

Revenue from the sales of natural health food and pharmaceutical products are recognised when control of the products has transferred, being at the point the products are delivered to the customer and the customer has accepted the products, and there is no unfulfilled obligation that could affect the customer's acceptance of the products. Delivery occurs when the products have been shipped to the specified location, the risks of obsolescence and loss have been transferred to the customer, and either the customer has accepted the products in accordance with the sales contract, the acceptance provisions have lapsed, or the Group has objective evidence that all criteria for acceptance have been satisfied.

Revenue from these sales is recognised based on the price specified in the contract, net of discounts, returns and value added taxes.

A receivable is recognised when the products are delivered and the customers accept the products, as this is the point in time that the consideration is unconditional because only the passage of time is required before the payment is due.

(II) INTEREST INCOME

Interest income is recognised as it accrues using the effective interest method. When a loan and receivable is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted of the original effective, interest rate of the instrument and continues unwinding the discount as interest income.

(III) PROVISION OF ANTI-AGING HEALTHCARE SERVICES AND POSTPARTUM CARE SERVICES

Revenue is recognised when service treatments are delivered to customers. Payments that are related to services not yet rendered are deferred and shown as contract liabilities in the consolidated statement of financial position. Upon expiry of prepaid packages of beauty, wellness and postpartum care services, the corresponding deferred revenue is fully recognised in profit or loss.

Notes to the Consolidated Financial Statements *(Continued)*

For the year ended 31 December 2019

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

(M) REVENUE AND OTHER INCOME RECOGNITION (CONTINUED)

REVENUE FROM CONTRACTS WITH CUSTOMERS *(CONTINUED)*

(IV) GOVERNMENT GRANTS

Government grants are recognised in the consolidated statement of financial position initially when there is reasonable assurance that they will be received and that the Group will comply with the conditions attached to them. Grants that compensate the Group for expenses incurred are recognised as income in profit or loss on a systematic basis in the same periods in which the expenses are incurred. Grants that compensate the Group for the cost of an asset are deducted from the carrying amount of the asset and consequently are effectively recognised in profit or loss over the useful life of the asset by way of reduced depreciation expense.

(N) TAXATION

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

CURRENT TAX

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

DEFERRED TAX

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

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



3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(N) TAXATION (CONTINUED)

DEFERRED TAX (CONTINUED)

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

Deferred tax 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.

For the purposes of measuring deferred tax for leasing transactions in which the Group recognises the right-of-use assets and the related lease liabilities, the Group first determines whether the tax deductions are attributable to the right-of-use assets or the lease liabilities.

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

CURRENT AND DEFERRED TAX FOR THE YEAR

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.

(O) LEASES

LEASES (APPLICABLE FROM 1 JANUARY 2019)

DEFINITION OF A LEASE

A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

For contracts entered into or modified or arising from business combinations on or after the date of initial application, the Group assesses whether a contract is or contains a lease based on the definition under HKFRS 16 at inception, modification date or acquisition date, as appropriate. Such contract will not be reassessed unless the terms and conditions of the contract are subsequently changed.

Notes to the Consolidated Financial Statements *(Continued)*

For the year ended 31 December 2019

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

(O) LEASES (CONTINUED)

LEASES (APPLICABLE FROM 1 JANUARY 2019) *(CONTINUED)*

AS A LESSEE

Allocation of consideration to components of a contract

For a contract that contains a lease component and one or more additional lease or non-lease components, the Group allocates the consideration in the contract to each lease component on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components.

Non-lease components are separated from lease component on the basis of their relative stand-alone prices.

Short-term leases and leases of low-value assets

The Group applies the short-term lease recognition exemption to leases of office premises that have a lease term of 12 months or less from the commencement date and do not contain a purchase option. It also applies the recognition exemption for lease of low-value assets. Lease payments on short-term leases and leases of low-value assets are recognised as expense on a straight-line basis or another systematic basis over the lease term.

RIGHT-OF-USE ASSETS

The cost of right-of-use asset includes:

- the amount of the initial measurement of the lease liability;
- any lease payments made at or before the commencement date, less any lease incentives received;
- any initial direct costs incurred by the Group; and
- an estimate of costs to be incurred by the Group in dismantling and removing the underlying assets, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease.

The Group recognises right-of-use assets at the commencement date of the lease (i.e. the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities.

Right-of-use assets in which the Group is reasonably certain to obtain ownership of the underlying leased assets at the end of the lease term is depreciated from commencement date to the end of the useful life. Otherwise, right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term.

The Group presents right-of-use assets as a separate line item on the consolidated statements of financial position.



3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

(O) LEASES (CONTINUED)

LEASES (APPLICABLE FROM 1 JANUARY 2019) (CONTINUED)

REFUNDABLE RENTAL DEPOSITS

Refundable rental deposits paid are accounted 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.

LEASE LIABILITIES

At the commencement date of a lease, the Group recognises and measures the lease liability at the present value of lease payments that are unpaid at that date. In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable.

The lease payments include:

- fixed payments (including in-substance fixed payments) less any lease incentives receivable;
- variable lease payments that depend on an index or a rate;
- amounts expected to be paid under residual value guarantees;
- the exercise price of a purchase option reasonably certain to be exercised by the Group; and
- payments of penalties for terminating a lease, if the lease term reflects the Group exercising the option to terminate.

After the commencement date, lease liabilities are adjusted by interest accretion and lease payments.

The Group remeasures lease liabilities (and makes a corresponding adjustment to the related right-of-use assets) whenever:

- the lease term has changed or there is a change 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 change due to changes in market rental rates following a market rent review/expected payment under a guaranteed residual value, in which cases the related lease liability is remeasured by discounting the revised lease payments using the initial discount rate.

The Group presents lease liabilities as a separate line item on the consolidated statement of financial position.

Notes to the Consolidated Financial Statements *(Continued)*

For the year ended 31 December 2019

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

(O) LEASES (CONTINUED)

LEASES (APPLICABLE FROM 1 JANUARY 2019) *(CONTINUED)*

LEASE MODIFICATIONS

The Group accounts for a lease modification as a separate lease if:

- the modification increases the scope of the lease by adding the right to use one or more underlying assets; and
- the consideration for the leases increases by an amount commensurate with the stand-alone price for the increase in scope and any appropriate adjustments to that stand-alone price to reflect the circumstances of the particular contract.

For a 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 the modification.

The Group accounts for the remeasurement of lease liabilities by making corresponding adjustments to the relevant right-of-use asset. When the modified contract contains a lease component and one or more additional lease or non-lease components, the Group allocates the consideration in the modified contract to each lease component on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components.

AS A LESSOR

Classification and measurement of leases

Leases for which the Group is a lessor are classified as finance or operating leases. Whenever the terms of the lease transfer substantially all the risks and rewards incidental to ownership of an underlying asset to the lessee, the contract is classified as a finance lease. All other leases are classified as operating leases.

Amounts due from lessees under finance leases are recognised as receivables at commencement date at amounts equal to net investments in the leases, measured using the interest rate implicit in the respective leases. Initial direct costs (other than those incurred by manufacturer or dealer lessors) are included in the initial measurement of the net investments in the leases. Interest income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Group's net investment outstanding in respect of the leases.

Rental income from operating leases is recognised in profit or loss on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset, and such costs are recognised as an expense on a straight-line basis over the lease term except for investment properties measured under fair value model.

Allocation of consideration to components of a contract

Effective on 1 January 2019, the Group applies HKFRS 15 to allocate consideration in a contract to lease and non-lease components. Non-lease components are separated from lease component on the basis of their relative stand-alone selling prices.

When the Group is an intermediate lessor, it accounts for the head lease and the sub-lease as two separate contracts. The sub-lease is classified as operating lease by reference to the right-of-use asset arising from the head lease.



3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

(O) LEASES (CONTINUED)

LEASES (APPLICABLE FROM 1 JANUARY 2019) (CONTINUED)

AS A LESSOR (CONTINUED)

Lease modification

The Group accounts for a modification to an operating lease as a new lease from the effective date of the modification, considering any prepaid or accrued lease payments relating to the original lease as part of the lease payments for the new lease.

THE GROUP AS LESSEE (APPLICABLE PRIOR TO 1 JANUARY 2019)

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

THE GROUP AS LESSOR

Rental income from operating leases is recognised in profit or loss on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised as expenses on a straight-line basis over the lease term.

THE GROUP AS LESSEE

Assets held under finance leases are initially recognised as assets of the Group at their fair values at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the consolidated statement of financial position as a finance lease obligation.

Lease payments are apportioned between finance expenses and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance expenses are recognised immediately in the profit or loss, unless they are directly attributable to qualifying assets, in which case they are capitalised in accordance with the Group's general policy on borrowing costs. Contingent rentals are recognised as expenses in the periods in which they are incurred.

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

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

Notes to the Consolidated Financial Statements *(Continued)*

For the year ended 31 December 2019

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

(P) FOREIGN CURRENCIES

In preparing the financial statements of each individual group entity, transactions in currencies other than the entity's functional currency (foreign currencies) are recognised at the rates of exchange prevailing at 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 at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences on monetary items are recognised in the profit or loss in the period in which they arise except for:

- exchange differences on foreign currency borrowings relating to assets under construction for future productive use, which are included in the cost of those assets when they are regarded as an adjustment to interest costs on those foreign currency borrowings;
- exchange differences on transactions entered into in order to hedge certain foreign currency risks; and
- exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned nor likely to occur (therefore forming part of the net investment in the foreign operation), which are recognised initially in other comprehensive income and reclassified from equity to profit or loss on repayment of the monetary items.

Goodwill and fair value adjustments on identifiable assets acquired arising on an acquisition of a foreign operation on or after 1 January 2005 are treated as assets and liabilities of that foreign operation and translated at the rate of exchange prevailing at the end of each reporting period. Exchange differences arising are recognised in other comprehensive income.



3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

(Q) SHORT-TERM AND OTHER LONG-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, annual leave and sick leave) after deducting any amount already paid.

Liabilities recognised in respect of other long-term employee benefits are measured at the present value of the estimated future cash outflows expected to be made by the Group in respect of services provided by employees up to the reporting date. Any changes in the liabilities' carrying amounts resulting from service cost, interest and remeasurements are recognised in profit or loss except to the extent that another HKFRS requires or permits their inclusion in the cost of an asset.

Payments to defined contribution retirement benefit plans are recognised as an expense when employees have rendered service entitling them to the contributions.

(R) SHARE-BASED PAYMENT ARRANGEMENTS

SHARE-BASED PAYMENT TRANSACTIONS OF THE COMPANY

For grants of share options that are conditional upon satisfying specified vesting conditions, the fair value of services received is determined by reference to the fair value of share options granted at the date of grant and is expensed on a straight-line basis over the vesting period, with a corresponding increase in equity (share options reserve).

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

Notes to the Consolidated Financial Statements *(Continued)*

For the year ended 31 December 2019

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

(R) SHARE-BASED PAYMENT ARRANGEMENTS (CONTINUED)

SHARE-BASED PAYMENT TRANSACTIONS OF THE COMPANY *(CONTINUED)*

For share options that vest immediately at the date of grant, the fair value of the share options granted is expensed immediately to profit or loss.

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

(S) PROVISIONS

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

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

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

(T) RELATED PARTIES TRANSACTIONS

A party is considered to be related to the Group if:

- (a) A person or a close member of that person's family is related to the Group if that person:
 - (i) has control or joint control over 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.



3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

(T) RELATED PARTIES TRANSACTIONS (CONTINUED)

- (b) An entity is related to the Group if any of the following conditions applies:
- (i) the entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiaries is related to the others);
 - (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 which the other entity is a member);
 - (iii) both entities 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. If the Group is itself such a plan, the sponsoring employees are also 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); or
 - (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 and include:

- (a) that person's children and spouse or domestic partner;
- (b) children of that person's spouse or domestic partner; and
- (c) dependants of that person or that person's spouse or domestic partner.

A related party transaction is a transfer of resources, services or obligations between the Group and a related party, regardless of whether a price is charged.

Notes to the Consolidated Financial Statements *(Continued)*

For the year ended 31 December 2019

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

(U) CONTINGENT LIABILITIES AND CONTINGENT ASSETS

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably. A contingent liability is not recognised but is disclosed in the notes to the consolidated financial statements. When a change in the probability of an outflow occurs so that outflow is probable, they will then be recognised as a provision.

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. Contingent assets are not recognised but are disclosed in the notes to the consolidated financial statements when an inflow of economic benefits is probable. When inflow is virtually certain, an asset is recognised.

(V) SEGMENT REPORTING

Operating segments, and the amounts of each segment item reported in the consolidated financial statements, are identified from the financial information provided regularly to the Group's chief operating decision maker for the purposes of allocating resources to, and assessing the performance of, the Group's various lines of business and geographical locations.

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of products and services, the nature of production processes, the type or class of customers, the methods used to distribute the products or to provide the services, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

(W) PROPERTIES UNDER DEVELOPMENT

Properties under development which are developed in the ordinary course of business are included in current assets at the lower of cost and net realisable value.

The cost of properties under development comprises land costs and construction costs according to the Group's accounting policy and directly attributable expenses incurred during the development period.

Net realisable value is determined by reference to the estimated selling price in the ordinary course of business less applicable estimated costs of completion and estimated costs necessary to make the sale.



4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next reporting period are discussed below.

IMPAIRMENT OF GOODWILL AND INTANGIBLE ASSET

Determining whether goodwill is impaired requires an estimation of the value in use of the CGU to which goodwill and intangible asset has been allocated. The value in use calculation requires the management of the Company to estimate the future cash flows expected to arise from the CGU and a suitable discount rate in order to calculate present value. As at 31 December 2019, the carrying amount of goodwill and intangible assets were HK\$627,529,000 and HK\$822,952,000 respectively (2018: HK\$229,010,000 and HK\$214,288,000). No impairment losses were recognised during both years.

IMPAIRMENT OF INTERESTS IN ASSOCIATES

The management of the Group carries out review on impairment on the interests in associates whenever events or changes in circumstances indicate that its carrying amount may not be recoverable by comparing its recoverable amount (higher of the value in use and fair value less cost of disposal) with its carrying amount.

In determining whether the interests in associates is impaired, it requires an estimation of its recoverable amount, which represents higher of the value in use and fair value less cost of disposal (market value). For the value in use, it requires the Group to estimate the future cash flows expected to arise from the operations of the investment and from the ultimate disposal, and a discount rate in order to calculate the present value. Where the recoverable amount of the Group's interest in an associate is less than the carrying amount, an impairment loss may arise.

During the year ended 31 December 2019, the management concluded that there was impairment loss on interest in an associate of approximately HK\$13,034,000 as the recoverable amount of the interest in associates which represented the value in use was lower than the carrying amount.

ALLOWANCE FOR EXPECTED CREDIT LOSSES OF OTHER RECEIVABLES, LOAN TO A SHAREHOLDER AND SHORT-TERM LOANS RECEIVABLE

The policy for the allowance for expected credit losses of other receivables, loan to a shareholder and short-term loans receivable of the Group is based on the forward looking basis the expected credit losses associated with its assets carried at amortised cost. A considerable amount of judgement is required in assessing the ultimate realisation of these receivables including the Group's historical records, existing market conditions and forward looking estimates at the end of reporting period. If the financial condition of the Group's other receivables, loan to a shareholder and short-term loans receivable was deteriorated, resulting in an impairment of their abilities to make payments, additional allowances may be required.

Notes to the Consolidated Financial Statements *(Continued)*

For the year ended 31 December 2019

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY *(CONTINUED)*

PROVISION OF ALLOWANCE FOR CREDIT LOSSES FOR TRADE RECEIVABLES

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

The provision of ECL is sensitive to changes in estimates. The information about the ECL and the Group's trade receivables are disclosed in notes 5 and 24.

USEFUL LIVES OF PROPERTY, PLANT AND EQUIPMENT

In accordance with HKAS 16, the Group estimates the useful lives of property, plant and equipment in order to determine the amount of depreciation expenses to be recorded. The useful lives are estimated at the time the assets are acquired based on historical experience, the expected usage, wear and tear of the assets, as well as technical obsolescence arising from changes in the market demands or service output of the assets. The Group also performs annual reviews on whether the assumptions made on useful lives continue to be valid.

INCOME TAXES

The Group is subject to income taxes in numerous jurisdictions. Significant judgement is required in determining the worldwide provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

FAIR VALUE MEASUREMENTS AND VALUATION PROCESSES

Certain assets and liabilities of the Group are measured at fair value for financial reporting purposes. In estimating the fair value of an asset or a liability, the Group uses market-observable data to the extent it is available. Where Level 1 inputs are not available, the Group engages third party qualified valuers to perform the valuation. At the end of each reporting period, the Group works closely with the qualified external valuers to establish and determine the appropriate valuation techniques and inputs for Level 2 and Level 3 fair value measurements. The Group will first consider and adopt Level 2 inputs where inputs can be derived from observable quoted prices in the active market. When Level 2 inputs are not available, the Group will adopt valuation techniques that include Level 3 inputs. Where there is a material change in the fair value of the assets, the causes of the fluctuations will be reported to the directors of the Company.

Information about the valuation techniques and inputs used in the determination of the fair value of various assets and liabilities are disclosed in note 5(c).



4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY *(CONTINUED)*

NET REALISABLE VALUE OF INVENTORIES

Net realisable value of inventories is the estimated selling price in the ordinary course of business, less estimated costs of completion and variable selling expenses. These estimates are based on the current market condition and the historical experience of manufacturing and selling products of similar nature. It could change significantly as a result of changes in customer taste and competitor actions in response to severe industry cycle. The directors reassess the estimations at the end of reporting period.

IMPAIRMENT OF RIGHT-OF-USE ASSETS

Right-of-use assets are stated at costs less accumulated depreciation and impairment, if any. In determining whether an asset is impaired, the Group has to exercise judgment and make estimation, particularly in assessing: (1) whether an event has occurred or any indicators that may affect the asset value; (2) whether the carrying value of an asset can be supported by the recoverable amount, in the case of value in use, the net present value of future cash flows which are estimated based upon the continued use of the asset; and (3) the appropriate key assumptions to be applied in estimating the recoverable amounts including cash flow projections and an appropriate discount rate. Changing the assumptions and estimates, including the discount rates or the growth rate in the cash flow projections, could materially affect the net present value used in the impairment test.

As at 31 December 2019, the carrying amounts of right-of-use assets amounted to HK\$331,780,000. No impairment losses were recognised during the year ended 31 December 2019.

ESTIMATED NET REALISABLE VALUE ON PROPERTIES UNDER DEVELOPMENT

In determining whether allowances should be made for the Group's properties under development, the Group takes into consideration the current market environment and the estimated net realisable value (i.e. the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale). An allowance is made if the estimated or actual net realisable value of the properties under development is less than expected as a result of change in market condition and/or significant variation in the budgeted development cost, material provision for impairment losses may result. As at 31 December 2019, the carrying amount of the properties under development is HK\$246,106,000 (2018: HK\$209,174,000).

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2019

5. FINANCIAL INSTRUMENTS

(A) CATEGORIES OF FINANCIAL INSTRUMENTS

| | 2019 HK\$'000 | 2018 HK\$'000 |
|--------------------------------------|------------------|------------------|
| Financial assets | | |
| At amortised cost | | |
| – Deposits and other receivables | 106,460 | 64,798 |
| – Trade receivables | 34,987 | 31,351 |
| – Loan to a shareholder | 45,443 | 28,574 |
| – Short-term loans receivable | 34,733 | 40,048 |
| – Bank and cash balances | 80,098 | 8,016 |
| At FVTPL | | |
| – Structured bank deposits | 146,164 | – |
| At FVTOCI | | |
| – Equity investments | 24,500 | 77,684 |
| Financial liabilities | | |
| At amortised cost | | |
| – Trade payables | 21,419 | 442 |
| – Accruals and other payables | 119,993 | 35,574 |
| – Obligation under finance leases | – | 1,350 |
| – Lease liabilities | 341,490 | – |
| – Bank and other borrowings | 481,465 | 16,138 |
| – Guaranteed notes and bonds payable | 121,537 | 246,792 |
| At FVTPL | | |
| – Contingent consideration payable | 325,816 | – |



5. FINANCIAL INSTRUMENTS *(CONTINUED)*

(A) CATEGORIES OF FINANCIAL INSTRUMENTS (CONTINUED)

The Group's major financial instruments include deposits and other receivables, trade receivables, loan to a shareholder, short-term loans receivable, bank and cash balances, financial assets at FVTPL, equity investments at FVTOCI, trade payables, accruals and other payables, obligation under finance leases, lease liabilities, bank and other borrowings, guaranteed notes and bonds payable and contingent consideration payable. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments and the policies on how to mitigate these are set out below. The management of the Company manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

There has been no change to the Group's risk exposure in respect of financial instruments or the manner in which it manages and measures the risks.

(B) FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

FOREIGN CURRENCY RISK

The Group is exposed to currency risk primarily through sales and purchases which give rise to receivables, payables and cash and bank balance that are denominated in a foreign currency, i.e. a currency other than the functional currency of the operations to which the transaction relate. The currencies giving rise to this risk are primarily HK\$ and Renminbi ("RMB").

Certain cash and bank balances are denominated in RMB. The conversion of RMB into other currencies is subject to the rules and regulations of foreign exchange control promulgated by PRC. The Group is exposed to foreign exchange risk in respect of exchange fluctuation of HK\$ against RMB. The Group currently does not have a foreign currency hedging policy in respect of foreign currency assets and liabilities. The Group will monitor its foreign currency exposure closely and will consider hedging significant foreign currency exposure should the need arise.

The Group are not exposed to foreign currency risk in respect to HK\$ against the United States dollars (US\$) as long as this currency is pegged.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2019

5. FINANCIAL INSTRUMENTS (CONTINUED)

(B) FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

FOREIGN CURRENCY RISK (CONTINUED)

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

| | Assets | | Liabilities | |
|-----|------------------|------------------|------------------|------------------|
| | 2019 HK\$'000 | 2018 HK\$'000 | 2019 HK\$'000 | 2018 HK\$'000 |
| RMB | 82,559 | 73,600 | 325,816 | 20,060 |

SENSITIVITY ANALYSIS

The following table details the Group sensitivity to a 5% increase and decrease in functional currency of the Group against the relevant foreign currencies. 5% represents the management of the Company's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the reporting date or a 5% change in foreign currency rates. A positive number below indicates a decrease in loss or an increase in profit where functional currency of the Group weakens 5% against the relevant foreign currency. For a 5% strengthen of functional currency of the Group against the relevant foreign currency, there would be an equal and opposite impact on the profit or loss, and the balance below would be negative.

| | Profit before tax | |
|-----|-------------------|------------------|
| | 2019 HK\$'000 | 2018 HK\$'000 |
| RMB | (12,163) | 2,677 |

INTEREST RATE RISK

The Group has interest-bearing assets and liabilities including time deposits and bank balances, short-term loans receivable, loan to a shareholder, financial assets at FVTPL, bank and other borrowings, bonds payable, guaranteed notes and lease liabilities. Details of these financial instruments are disclosed in respective notes. The Group currently does not have interest rate hedging policy. However, the management of the Company monitors interest rate exposure and will consider hedging significant interest rate exposure should the need arise.



5. FINANCIAL INSTRUMENTS *(CONTINUED)*

(B) FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

INTEREST RATE RISK (CONTINUED)

SENSITIVITY ANALYSIS

If the floating rates had been 50 basis points (2018: 50 basis points) higher/lower and all other variables were held constant, the Group's profit before tax for the year ended 31 December 2019 would increase/decrease by approximately HK\$1,902,000 (2018: HK\$Nil). This is mainly attributable to the Group's exposure to interest rates on its bank and other borrowings.

CREDIT RISK

The Group's credit risk is mainly attributable to trade receivables, deposits and other receivables, loan to a shareholder, short-term loans receivable and bank and cash balances. The management of the Company has a credit policy in place and the exposures to these credit risks are monitored on an ongoing basis.

The Group applies the simplified approach to provide for expected credit losses prescribed by HKFRS 9, which permits the use of the lifetime expected credit loss provision for all trade receivables. To measure the expected credit losses, trade receivables have been grouped based on shared credit risk characteristics. The Group has performed historical analysis and identified the key economic variables impacting credit risk and expected credit loss. It considers available reasonable and supportive forwarding-looking information.

As at 31 December 2019 and 2018, trade receivables that are individually significant have been separately assessed for impairment. The Group makes periodic assessments on the recoverability of the receivables based on the background and reputation of the customers, historical settlement records and past experience.

The Group has certain concentration of credit risk as 46.6% (2018: 47.3%) and 97.0% (2018: 92.8%) of the total trade receivables was due from the Group's largest customer and the five largest customers respectively. In view of the history of business dealings with the debtors and the sound collection history of the receivables due from them, management believes that there is no material credit risk inherent in the Group's outstanding receivable balance due from these debtors saved for the debtor related to the impaired trade receivable disclosed in the below. Management makes periodic assessment on the recoverability of the trade and other receivables based on historical payment records, the length of overdue period, the financial strength of the debtors and whether there are any disputes with the debtors.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2019

5. FINANCIAL INSTRUMENTS (CONTINUED)

(B) FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

CREDIT RISK (CONTINUED)

The Group measures loss allowances for trade receivables at an amount equal to lifetime ECLs, which is calculated using a provision matrix. As the Group's historical credit loss experience does not indicate significantly different loss patterns for different customer segments, the loss allowance based on past due status is not further distinguished between the Group's different customer bases.

TRADE RECEIVABLES

| | 0 to 30 days | 31 to 60 days | 61 to 90 days | 91 to 120 days | 121 to 180 days | Total |
|----------------------------------|-----------------|------------------|------------------|-------------------|--------------------|---------|
| As at 31 December 2019 | | | | | | |
| Expected credit loss rate | 1.7% | 3.6% | 5.2% | 0% | 0% | 2.9% |
| Gross carrying amount (HK\$'000) | 14,657 | 19,805 | 1,583 | – | – | 36,045 |
| Lifetime ECL | (254) | (721) | (83) | – | – | (1,058) |
| | 14,403 | 19,084 | 1,500 | – | – | 34,987 |
| As at 31 December 2018 | | | | | | |
| Expected credit loss rate | 0% | 0% | 0% | 0% | 0.8% | 0.1% |
| Gross carrying amount (HK\$'000) | 2,575 | 14,832 | 9,288 | 34 | 4,659 | 31,388 |
| Lifetime ECL | – | – | – | – | (37) | (37) |
| | 2,575 | 14,832 | 9,288 | 34 | 4,622 | 31,351 |

In order to minimise the credit risk, the management 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.

OTHER RECEIVABLES

For other receivables, the directors make periodic individual assessment on the recoverability of other receivables based on historical settlement records, past experience, and also quantitative and qualitative information that is reasonable and supportive forward-looking information.



5. FINANCIAL INSTRUMENTS (CONTINUED)

(B) FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

CREDIT RISK (CONTINUED)

OTHER RECEIVABLES (CONTINUED)

The movement of allowance of expected credit losses of other receivables during the year are as follows:

| | HK\$'000 |
|--|----------|
| At 1 January 2018 | 3,608 |
| Allowance for expected credit losses | 3,702 |
| At 31 December 2018 and 1 January 2019 | 7,310 |
| Allowance for expected credit losses | 6,021 |
| At 31 December 2019 | 13,331 |

Besides, the management is of opinion that there is no significant increase in credit risk on these other receivables since initial recognition as the risk of default is low and, thus, ECL recognised is based on 12-month ECL. The ECL applied for other receivables ranging from 0.03% to 17.55%.

SHORT-TERM LOANS RECEIVABLE AND LOAN TO A SHAREHOLDER

Short-term loans receivable and loan to a shareholder are categorised into the following stages by the Group:

Stage 1

Short-term loans receivable and loan to a shareholder have not experienced a significant increase in credit risk since origination and impairment recognised on the basis of 12 months ECL (12-month ECLs).

Stage 2

Short-term loans receivable and loan to a shareholder have experienced a significant increase in credit risk since origination and impairment is recognised on the basis of lifetime ECL (Lifetime ECLs non credit-impaired).

Stage 3

Short-term loans receivable and loan to a shareholder that are in default and considered credit impaired (Lifetime ECLs credit impaired). In assessing whether the credit risk of short-term loans receivable and loan to a shareholder have increased significantly since initial recognition, the Group compares the risk of default occurring on the short-term loans receivable and loan to a shareholder assessed at the reporting date with that assessed at the date of initial recognition. In making this reassessment, the Group considers that a default event occurs when (i) the borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realising security (if any is held); or (ii) the financial asset is past due for more than 90 days. 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.

Notes to the Consolidated Financial Statements *(Continued)*

For the year ended 31 December 2019

5. FINANCIAL INSTRUMENTS *(CONTINUED)*

(B) FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

CREDIT RISK (CONTINUED)

SHORT-TERM LOANS RECEIVABLE AND LOAN TO A SHAREHOLDER (CONTINUED)

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

- an actual or expected significant deterioration in its external or internal credit rating (if available);
- existing or forecast changes in the technological, market, economic or legal environment that have a significant adverse effect on the debtor's ability to meet its obligation to the Group; and
- the financial asset is past due.

In addition, the Group reviews the recoverable amount of each individual's short-term loans receivable and loan to a shareholder at the end of each reporting period to ensure that adequate allowance for expected credit losses are made for irrecoverable amounts. As at 31 December 2019, based on past experience, the directors are of the opinion that allowance for expected credit losses of HK\$488,000 and HK\$65,000 (2018: HK\$152,000 and HK\$Nil) were recognised on individual loans are necessary in respect of these balances respectively.

The Group manages and analyses the credit risk for each of their new and existing clients before standard payment terms and conditions are offered. If there is no independent rating, the Group assesses the credit quality of the customer based on the customer's financial position, past experience and other factors. Individual risk limits are set based on the customers' internal or external ratings in accordance with limits set by the directors. The utilisation of credit limits is regularly monitored.

Quantitative information related to allowance for ECL of short-term loans receivable and loan to a shareholder were details in note 28 and 27 respectively.

The Group does not provide any guarantees which would expose the Group to credit risk.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2019



5. FINANCIAL INSTRUMENTS (CONTINUED)

(B) FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

CREDIT RISK (CONTINUED)

SHORT-TERM LOANS RECEIVABLE

| | At 31 December 2019 | | | |
|--|---------------------|---------------------|---------------------|-------------------|
| | Stage 1 HK\$'000 | Stage 2 HK\$'000 | Stage 3 HK\$'000 | Total HK\$'000 |
| Short-term loans receivable, gross | 35,221 | – | – | 35,221 |
| Less: Lifetime ECL on short-term loans receivable | (488) | – | – | (488) |
| | 34,733 | – | – | 34,733 |

| | At 31 December 2018 | | | |
|--|---------------------|---------------------|---------------------|-------------------|
| | Stage 1 HK\$'000 | Stage 2 HK\$'000 | Stage 3 HK\$'000 | Total HK\$'000 |
| Short-term loans receivable, gross | 40,200 | – | – | 40,200 |
| Less: Lifetime ECL on short-term loans receivable | (152) | – | – | (152) |
| | 40,048 | – | – | 40,048 |

Movement for ECL of short-term loans receivable are as follow:

| | Stage 1 HK\$'000 | Stage 2 HK\$'000 | Stage 3 HK\$'000 | Total HK\$'000 |
|---|---------------------|---------------------|---------------------|-------------------|
| At 1 January 2018, 31 December 2018 and 1 January 2019 | 152 | – | – | 152 |
| Allowance for ECL on short-term loans receivable | 336 | – | – | 336 |
| At 31 December 2019 | 488 | – | – | 488 |

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2019

5. FINANCIAL INSTRUMENTS (CONTINUED)

(B) FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

CREDIT RISK (CONTINUED)

LOAN TO A SHAREHOLDER

| | At 31 December 2019 | | | |
|--|---------------------|---------------------|---------------------|-------------------|
| | Stage 1 HK\$'000 | Stage 2 HK\$'000 | Stage 3 HK\$'000 | Total HK\$'000 |
| Loan to a shareholder, gross | 45,508 | – | – | 45,508 |
| Less: Lifetime ECL on loan to a shareholder | (65) | – | – | (65) |
| | 45,443 | – | – | 45,443 |

| | At 31 December 2018 | | | |
|--|---------------------|---------------------|---------------------|-------------------|
| | Stage 1 HK\$'000 | Stage 2 HK\$'000 | Stage 3 HK\$'000 | Total HK\$'000 |
| Loan to a shareholder, gross | 28,612 | – | – | 28,612 |
| Less: Lifetime ECL on loan to a shareholder | (38) | – | – | (38) |
| | 28,574 | – | – | 28,574 |

Movement for ECL of loan to a shareholder are as follow:

| | Stage 1 HK\$'000 | Stage 2 HK\$'000 | Stage 3 HK\$'000 | Total HK\$'000 |
|---|---------------------|---------------------|---------------------|-------------------|
| At 1 January 2018 | 84 | – | – | 84 |
| Reversal of ECL on loan to a shareholder | (46) | – | – | (46) |
| At 31 December 2018 and 1 January 2019 | 38 | – | – | 38 |
| Allowance for ECL on loan to a shareholder | 27 | – | – | 27 |
| At 31 December 2019 | 65 | – | – | 65 |

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2019



5. FINANCIAL INSTRUMENTS (CONTINUED)

(B) FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

CREDIT RISK (CONTINUED)

BANK BALANCES

The credit risk on bank balances are limited because the majority of the counterparties are bank with high credit-ratings assigned by International credit-ratio agencies. The Group has no other significant concentration of credit risk.

The Group is not exposed to significant credit risk in relation to other financial assets such as cash and cash equivalents.

LIQUIDITY RISK

The Group manages liquidity risk by regularly monitoring current and expected liquidity requirements and ensuring sufficient liquid cash and intended credit lines of funding from major financial institutions to meet the Group's liquidity requirements in the short and long term. The liquidity risk is under continuous monitoring by the management of the Group. The Group will raise bank borrowings whenever necessary.

The following tables detail the Group's contractual maturity for its non-derivative financial liabilities. The tables have been drawn up based on the undiscounted cash flows of the financial liabilities based on the earliest dates on which the Group can be required to pay. The amounts disclosed in the table are based on the contractual undiscounted payments, are as follows:

| | Weight average effective interest rate % | On demand or less than 1 year HK\$'000 | Between 1–5 years HK\$'000 | Over 5 years HK\$'000 | Total contractual undiscounted cash flows HK\$'000 | Total carrying amount HK\$'000 |
|---|--|---|----------------------------------|-----------------------------|--|---|
| At 31 December 2019 | | | | | | |
| Non-derivative financial liabilities | | | | | | |
| Trade payables | – | 21,419 | – | – | 21,419 | 21,419 |
| Accruals and other payables | – | 119,993 | – | – | 119,993 | 119,993 |
| Bonds payable | 12.12 | 32,784 | 105,317 | – | 138,101 | 121,537 |
| Bank and other borrowings | 7.02 | 142,982 | 268,704 | 118,409 | 530,095 | 481,465 |
| Lease liabilities | 5.07 | 91,977 | 228,858 | 72,350 | 393,185 | 341,490 |
| Total | | 409,155 | 602,879 | 190,759 | 1,202,793 | 1,085,904 |
| At 31 December 2018 | | | | | | |
| Non-derivative financial liabilities | | | | | | |
| Trade payables | – | 442 | – | – | 442 | 442 |
| Accruals and other payables | – | 35,574 | – | – | 35,574 | 35,574 |
| Guaranteed notes and bonds payable | 17.4 | 260,306 | 46,287 | – | 306,593 | 246,792 |
| Bank and other borrowings | 8.72 | 17,545 | – | – | 17,545 | 16,138 |
| Obligation under a finance lease | 8.07 | 397 | 1,148 | – | 1,545 | 1,350 |
| Total | | 314,264 | 47,435 | – | 361,699 | 300,296 |

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2019

5. FINANCIAL INSTRUMENTS (CONTINUED)

(C) FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair value of the Group's financial assets and financial liabilities are determined as follows:

- the fair values of financial assets and financial liabilities with standard terms and conditions and traded in active markets are determined with reference to quoted market bid prices and ask prices respectively;
- the fair values of derivative instruments are calculated using quoted prices. When such prices are not available, a discounted cash flow analysis is performed using the applicable yield curve for the duration of the instruments for non-optional derivatives, and option pricing models for optional derivatives; and
- the fair values of other financial assets and financial liabilities (excluding those described above) are determined in accordance with generally accepted pricing models based on discounted cash flow analysis.

The directors consider that the carrying amounts of financial assets and financial liabilities recognised in the consolidated financial statements are approximate to their fair values.

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable:

| | Level 1 HK\$'000 | Level 2 HK\$'000 | Level 3 HK\$'000 | Total HK\$'000 |
|-----------------------------------|---------------------|---------------------|---------------------|-------------------|
| At 31 December 2019 | | | | |
| Equity investments at FVTOCI | – | – | 24,500 | 24,500 |
| Structured bank deposits at FVTPL | – | – | 146,164 | 146,164 |
| Contingent consideration payable | – | – | 325,816 | 325,816 |
| At 31 December 2018 | | | | |
| Equity investments at FVTOCI | – | – | 77,684 | 77,684 |



5. FINANCIAL INSTRUMENTS (CONTINUED)

(C) FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

FINANCIAL INSTRUMENTS UNDER LEVEL 3 MEASUREMENT

FAIR VALUE ESTIMATION

The following table gives information about how the fair values of these financial assets and financial liabilities are determined (in particular, the valuation technique(s) and inputs used).

| Financial instruments | Fair value 2019 HK\$'000 | Fair value 2018 HK\$'000 | Fair value hierarchy | Valuation techniques and key inputs | Significant unobservable inputs |
|---|--------------------------------|--------------------------------|-------------------------|--|--|
| Unlisted equity investments presented as equity investments at FVTOCI | 24,500 | 77,684 | Level 3 | Market approach, using three market multiples (P/E, P/B and P/S), adjusted by size to determine the implied value of the Company (2018: Discounted cash flow: projected cash flow and discount rate) | Discount for lack of marketability of 21%, determined by reference to the Stout Restricted Stock Study (2018: Projected cash flow taking into account management's experience and the estimated terminal value (note (i))) |
| Structured bank deposits presented as financial assets at FVTPL | 146,164 | – | Level 3 | Discounted cash flow was used to capture the present value of the expected future economic benefits to be derived from the ownership | Discount rate ranging from 3.58% to 4.10% (note (iii)) |
| Contingent consideration payable | 325,816 | – | Level 3 | Discounted cash flow method was used to capture the present value of the expected future economic benefits that will flow out of the Group from the contingent consideration | Discount rate from 3.95% to 7.17% and probability-adjusted profits with a range from approximately RMB59,000,000 to RMB99,000,000 (note (iii)) |

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2019

5. FINANCIAL INSTRUMENTS (CONTINUED)

(C) FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

FINANCIAL ASSETS UNDER LEVEL 3 MEASUREMENT (CONTINUED)

FAIR VALUE ESTIMATION (CONTINUED)

Notes:

- (i) The higher the discount rate, the lower the fair value.
- (ii) An increase in the discount rate would result in a decrease in fair value measurement of the financial assets at FVTPL, and vice versa.
- (iii) A slight increase in the probability-adjusted profits used in isolation would result in a significant increase in the fair value measurement of the contingent consideration and vice versa.

There is no transfer into and out of level 3 for the years ended 31 December 2019 and 2018.

The following table presents the changes in equity investments at FVTOCI and contingent consideration payable which are classified as Level 3 instrument at the end of the reporting period:

| | Equity investments at FVTOCI HK\$'000 | Contingent consideration payable HK\$'000 | Total HK\$'000 |
|--|--|--|-------------------|
| As at 1 January 2018 | 75,617 | – | 75,617 |
| Fair value gain on revaluation recognised in other comprehensive income | 2,067 | – | 2,067 |
| At 31 December 2018 and 1 January 2019 | 77,684 | – | 77,684 |
| Fair value gain on revaluation recognised in other comprehensive income | 24,352 | – | 24,352 |
| Derecognised upon step-up acquisition | (102,036) | – | (102,036) |
| Acquisition of subsidiaries (note 41) | – | 320,304 | 320,304 |
| Recognised upon disposal of associate (note 20) | 24,500 | – | 24,500 |
| Loss on fair value change for the year | – | 5,821 | 5,821 |
| Exchange alignment | – | (309) | (309) |
| As at December 2019 | 24,500 | 325,816 | 350,316 |



5. FINANCIAL INSTRUMENTS *(CONTINUED)*

(C) FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

FINANCIAL ASSETS UNDER LEVEL 3 MEASUREMENT (CONTINUED)

FAIR VALUE ESTIMATION (CONTINUED)

No material gain or losses are recognised in profit or loss and other comprehensive income relating to the change in fair value of structured deposits presented as financial assets at FVTPL, classified as level 3 in the current year, and therefore no reconciliation of level 3 fair value measurements in respect of structured deposits is presented.

SENSITIVITY ANALYSIS

No sensitivity analysis is disclosed for the impact of changes in the relevant unobservable data in respect of structured bank deposits classified as financial assets at FVTPL and equity investments at FVTOCI, as the management considers that the exposure is insignificant to the Group.

6. 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 stakeholders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged from 2018.

The capital structure of the Group consists of borrowings (comprising bank and other borrowings, guaranteed notes and bonds payable, lease liabilities and obligation under finance leases) and equity (comprising share capital and reserves).

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2019

6. CAPITAL RISK MANAGEMENT (CONTINUED)

The directors review the capital structure on a regular basis. As part of this review, the directors consider the cost of capital and the risks associated with each class of capital. The gearing ratio at the end of the reporting period was as follows:

| | 2019 HK\$'000 | 2018 HK\$'000 |
|--|------------------|------------------|
| Total borrowings: | | |
| Lease liabilities (note 17) | 341,490 | – |
| Bank and other borrowings (note 36) | 481,465 | 16,138 |
| Guaranteed notes and bonds payable (note 35) | 121,537 | 246,792 |
| Obligation under finance leases (note 32) | – | 1,350 |
| | 944,492 | 264,280 |
| Total equity | 1,306,807 | 962,227 |
| Gearing ratio | 72.3% | 27.5% |

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2019



7. REVENUE

| | 2019 HK\$'000 | 2018 HK\$'000 |
|---|------------------|------------------|
| Revenue from contracts with customers: | | |
| Disaggregated by major products or service lines | | |
| Provision of postpartum care services | 232,828 | – |
| Health Industry | | |
| – Sales of natural health food | 284,381 | 249,795 |
| – Provision of medical anti-aging healthcare services | 82,437 | 108,132 |
| – Sales of pharmaceutical products and others | 3,687 | 6,843 |
| | 603,333 | 364,770 |
| Timing of revenue recognition | | |
| At a point in time | 285,336 | 255,647 |
| Over-time | 317,997 | 109,123 |
| | 603,333 | 364,770 |
| Revenue from other sources: | | |
| Interest income from loans receivable | 7,279 | 12,265 |
| | 610,612 | 377,035 |

All revenue contracts are for period of one year or less, as permitted by practical expedient under HKFRS 15, the transaction price allocated to these unsatisfied contracts is not disclosed.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2019

8. OPERATING SEGMENTS

For the purposes of resource allocation and assessment of segment performance, information reported to the Executive Directors of the Company, being the chief operating decision makers (the “CODM”), focus on types of goods or services delivered or provided.

In the current year, the Group reorganised its internal reporting structure which resulted in changes to the composition of its reportable segments. In the prior year, the Group’s Health Industry segments included “Natural Health Food”, “Medical Anti-aging and Health Preservation Base”, and “Medical and Healthcare Industry Investment Management” segments. In accordance with the way in which information is now reported internally to the CODM for purpose of resource allocation and performance assessment and the recent streamlining of certain reportable segments, the financial information of the Group’s “Medical Anti-aging and Health Preservation Base” segment and “Medical and Healthcare Industry Investment Management” segment are now reported within the “Medical Anti-aging and Healthcare Industry Investments” segment. Prior year’s segment disclosures have been represented to conform with the current year’s representation. Particulars of the Group’s reportable operating segments are summarised as follows:

| | | |
|--------------------------|---|--|
| Postpartum care services | – | provision of maternal and child healthcare services in the PRC |
| Health industry | – | including natural health food and pharmaceutical products trading in the PRC, medical anti-aging, healthcare industry investments and healthcare property development in the PRC |

“Other” segment primarily comprises investment and finance business and others operations that do not meet the quantitative thresholds. Information regarding the above segments is reported below.

INFORMATION ABOUT MAJOR CUSTOMERS

One individual customer contributed over 10% of the total revenue of the Group during the year ended 31 December 2019 (2018: nil) as follows:

| | 2019 HK\$’000 | 2018 HK\$’000 |
|-------------------------|------------------|------------------|
| Customer A ¹ | 78,358 | N/A ² |

¹ Revenue from natural health food trading business

² The corresponding revenue did not contribute over 10% of the total Group.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2019



8. OPERATING SEGMENTS (CONTINUED)

Operating segment information is presented below:

SEGMENT REVENUE AND RESULTS

| | Health Industry | | | | | | | | | | | |
|---|--------------------------|----------|---------------------|----------|--|----------|-----------|----------|----------|----------|--------------|----------|
| | Postpartum Care Services | | Natural Health Food | | Medical Anti-aging and Healthcare industry investments | | Sub-total | | Others | | Consolidated | |
| | 2019 | 2018 | 2019 | 2018 | 2019 | 2018 | 2019 | 2018 | 2019 | 2018 | 2019 | 2018 |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| Revenue | | | | | | | | | | | | |
| Revenue from external customers | 232,828 | – | 284,381 | 249,795 | 86,124 | 114,975 | 370,505 | 364,770 | 7,279 | 12,265 | 610,612 | 377,035 |
| Results | | | | | | | | | | | | |
| Segment results for reportable segment | 52,920 | – | 2,540 | 1,245 | 34,708 | 68,065 | 37,248 | 69,310 | (49,566) | (31,788) | 40,602 | 37,522 |
| Bank interest income | 15 | – | 3 | 2 | 5 | 3 | 8 | 5 | 36 | 1 | 59 | 6 |
| Interest income from financial assets at FVTPL | 3,199 | – | – | – | – | – | – | – | – | – | 3,199 | – |
| Unallocated expenses, net* | | | | | | | | | | | (18,538) | (17,081) |
| Gain on disposal of an associate | | | | | | | | | | | 16,625 | – |
| Loss on deemed disposal of associate | | | | | | | | | | | – | (571) |
| Loss on fair value change of contingent consideration payable | (5,821) | – | – | – | – | – | – | – | – | – | (5,821) | – |
| Income tax expense | (17,154) | – | (77) | (162) | (1,808) | (8,606) | (1,885) | (8,768) | – | – | (19,039) | (8,768) |
| Profit for the year | | | | | | | | | | | 17,087 | 11,108 |

* Unallocated expenses mainly include certain depreciation on property, plant and equipment, general office expenses and unallocated employee benefit expenses.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2019

8. OPERATING SEGMENTS (CONTINUED)

SEGMENT ASSET AND LIABILITIES

| | Health Industry | | | | | | | | | | | | | |
|---|--------------------------|------------------|--|------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|--------------|--|
| | Postpartum Care Services | | Medical Anti-aging and Healthcare industry investments | | | | | | Sub-total | | Others | | Consolidated | |
| | | | Natural Health Food | | | | | | | | | | | |
| | 2019 HK\$'000 | 2018 HK\$'000 | 2019 HK\$'000 | 2018 HK\$'000 | 2019 HK\$'000 | 2018 HK\$'000 | 2019 HK\$'000 | 2018 HK\$'000 | 2019 HK\$'000 | 2018 HK\$'000 | 2019 HK\$'000 | 2018 HK\$'000 | | |
| Assets | | | | | | | | | | | | | | |
| Segment assets for reportable segments | 1,763,538 | - | 170,294 | 98,834 | 1,107,873 | 1,180,649 | 1,278,167 | 1,279,483 | 78,101 | 72,115 | 3,119,806 | 1,351,598 | | |
| Unallocated assets | | | | | | | | | | | 16,823 | 16,120 | | |
| Total assets | | | | | | | | | | | 3,136,629 | 1,367,718 | | |
| Liabilities | | | | | | | | | | | | | | |
| Segment liabilities for reportable segments | 1,258,363 | - | 108,965 | 53,865 | 164,748 | 56,375 | 273,713 | 110,240 | 109,736 | 283,485 | 1,641,812 | 393,725 | | |
| Unallocated liabilities | | | | | | | | | | | 188,010 | 11,766 | | |
| Total liabilities | | | | | | | | | | | 1,829,822 | 405,491 | | |

Segment revenue reported above represents revenue generated from external customers. There were no inter-segment sales during both years.

Segment results represent the profit earned/(the loss incurred) by each segment without allocation of corporate expenses, gain on disposal of an associate, loss on deemed disposal of associates, interest income from financial assets at FVTPL, fair value change of contingent consideration payable, bank interest income and income tax expense.

For the purposes of monitoring segment performance and allocating resources between segments:

All assets are allocated to reportable segments other than unallocated corporate assets which mainly include certain property, plant and equipment, prepayments and deposits and corporate bank balances.

All liabilities are allocated to reportable segments other than unallocated corporate liabilities which mainly include certain accruals, deposits received and other payables and deferred tax liabilities.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2019



8. OPERATING SEGMENTS (CONTINUED)

GEOGRAPHICAL INFORMATION

In determining the Group's geographical information, revenue information is based on the location of the customers, and asset information is based on the location of the assets.

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

| | Revenue from external customers | | Non-current assets* | |
|--|------------------------------------|------------------|---------------------|------------------|
| | 2019 HK\$'000 | 2018 HK\$'000 | 2019 HK\$'000 | 2018 HK\$'000 |
| The People's Republic of China (the "PRC") | 535,458 | 273,639 | 1,692,454 | 240,618 |
| Hong Kong | 75,154 | 103,396 | 344,091 | 344,136 |

* Non-current assets excluded those relating to interests in associates, equity investments at fair value through other comprehensive income and deferred tax assets.

OTHER SEGMENT INFORMATION

| | Postpartum Care Services | | Health Industry | | Others | | Consolidated | |
|---|-----------------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|
| | 2019 HK\$'000 | 2018 HK\$'000 | 2019 HK\$'000 | 2018 HK\$'000 | 2019 HK\$'000 | 2018 HK\$'000 | 2019 HK\$'000 | 2018 HK\$'000 |
| Depreciation of property, plant and equipment | 15,656 | – | 6,640 | 12,084 | 2,451 | 2,145 | 24,747 | 14,229 |
| Depreciation of right-of-use assets | 20,355 | – | 8,347 | – | 1,129 | – | 29,831 | – |
| Share of result of associates | 212 | – | 8,139 | 17,371 | – | – | 8,351 | 17,371 |
| Impairment loss recognised in respect of interest in an associate | – | – | 13,034 | – | – | – | 13,034 | – |
| Allowance for/(reversal of) expected credit losses of | | | | | | | | |
| – trade receivables | – | – | 975 | (30) | 46 | – | 1,021 | (30) |
| – other receivables | – | – | 6,021 | 3,702 | – | – | 6,021 | 3,702 |
| – loan to a shareholder | – | – | – | – | 27 | (46) | 27 | (46) |
| – short-term loans receivables | – | – | – | – | 336 | – | 336 | – |
| Interests in associates | 1,134 | – | 190,427 | 223,789 | – | – | 191,561 | 223,789 |
| Capital expenditure* | 10,186 | – | 17,551 | 23,548 | 1,207 | 1,983 | 28,944 | 25,531 |
| Written off of property, plant and equipment | 1,450 | – | – | 461 | – | 269 | 1,450 | 730 |
| Finance cost | 4,184 | – | 4,467 | 312 | 36,157 | 37,412 | 44,808 | 37,724 |
| Addition to goodwill | 398,903 | – | – | – | – | – | 398,903 | – |

* Capital expenditure consists of addition to property, plant and equipment and right-of-use assets.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2019

9. OTHER INCOME

| | 2019 HK\$'000 | 2018 HK\$'000 |
|--|------------------|------------------|
| Bank interest income | 59 | 6 |
| Gain on fair value change of financial assets at FVTPL | 631 | – |
| Interest income from financial assets at FVTPL | 3,199 | – |
| Dividend income from unlisted investments | 854 | 3,355 |
| Rental income | 3,423 | – |
| Management fee income | 292 | – |
| Government grants (note) | 1,011 | – |
| Others | 750 | 266 |
| | 10,219 | 3,627 |

Note: Government grants were mainly granted to the Group as subsidies to support the operation of the PRC subsidiaries. The government grant had no conditions or contingencies attracted to them and they were non-recurring in nature.

10. FINANCE COST

| | 2019 HK\$'000 | 2018 HK\$'000 |
|---|------------------|------------------|
| Interest on convertible notes | – | 7,807 |
| Interest on guaranteed notes and bonds payable | 28,144 | 28,766 |
| Interest on bank and other borrowings | 11,651 | 941 |
| Interest on lease liabilities/obligation under finance leases | 5,013 | 210 |
| | 44,808 | 37,724 |

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2019



11. PROFIT BEFORE INCOME TAX

| | 2019 HK\$'000 | 2018 HK\$'000 |
|---|------------------|------------------|
| Profit for the year has been arrived at after charging/(crediting): | | |
| Total staff costs including remuneration of the directors of the Group: | | |
| Salaries and other benefits | 75,332 | 17,064 |
| Retirement benefit scheme contributions | 3,111 | 1,014 |
| | 78,443 | 18,078 |
| Auditors' remuneration for audit services | 1,800 | 1,500 |
| Auditors' remuneration for non-audit services | 1,680 | 330 |
| Fair value changes on derivative financial liabilities | – | 2,438 |
| Written-off of property, plant and equipment | 1,450 | 730 |
| Cost of inventories recognised as expenses* | 307,595 | 247,584 |
| Exchange loss, net | 137 | 149 |
| Impairment loss recognised in respect of interest in an associate | 13,034 | – |
| Allowance for/(reversal of) expected credit losses of | | |
| – trade receivables | 1,021 | (30) |
| – other receivables | 6,021 | 3,702 |
| – loan to a shareholder | 27 | (46) |
| – short-term loans receivable | 336 | – |
| Loss on fair value change of contingent consideration payable | 5,821 | – |
| Gain on fair value change of financial assets at FVTPL | (631) | – |
| Depreciation of property, plant and equipment | 24,747 | 14,229 |
| Depreciation of right-of-use assets | 29,831 | – |
| Payments to short-term leases | 1,916 | – |
| Operating lease charges in respect of property rentals: | | |
| Minimum lease payments | – | 8,592 |

* Included in "Cost of sales" of the consolidated statement of profit or loss and other comprehensive income

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2019

12. DIRECTORS', SENIOR MANAGEMENT'S AND EMPLOYEES' EMOLUMENTS

(A) DIRECTORS' EMOLUMENTS

Fees and other emoluments paid or payable to the directors of the Company for the years ended 31 December 2019 and 2018 were as follows:

For the year ended 31 December 2019

| | Fees HK\$'000 | Salaries and allowances HK\$'000 | Contributions to retirement benefit scheme HK\$'000 | Total HK\$'000 |
|--|------------------|--|---|-------------------|
| Executive directors | | | | |
| Ms. Zhu Yufei (<i>Joint Chairman and Chief Executive Officer</i>) (note (i)) | – | – | – | – |
| Mr. Cheung Wai Kuen (<i>Joint Chairman</i>) | 150 | – | – | 150 |
| Mr. Cheng Hau Yan (note (iii)) | 150 | 1,576 | 15 | 1,741 |
| Mr. Ye Jiong Xian (note (iii)) | – | 425 | 18 | 443 |
| Mr. Li Runping (note (iv)) | – | – | – | – |
| Mr. Lin Jiang (note (v)) | – | – | – | – |
| Non-executive directors | | | | |
| Mr. Hou Kaiwen (note (vi)) | – | – | – | – |
| Mr. Lin Jiang (note (v)) | 150 | – | – | 150 |
| Mr. Wong Kin Man (note (vii)) | – | – | – | – |
| Mr. Yang Zhibo (note (viii)) | – | – | – | – |
| Independent non-executive directors | | | | |
| Mr. Lam Chi Wing | 150 | – | – | 150 |
| Mr. Mai Yang Guang | 150 | – | – | 150 |
| Mr. Wong Yiu Kit, Ernest | 150 | – | – | 150 |
| Total | 900 | 2,001 | 33 | 2,934 |

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2019



12. DIRECTORS', SENIOR MANAGEMENT'S AND EMPLOYEES' EMOLUMENTS (CONTINUED)

(A) DIRECTORS' EMOLUMENTS (CONTINUED)

For the year ended 31 December 2018

| | Fees HK\$'000 | Salaries and allowances HK\$'000 | Contributions to retirement benefit scheme HK\$'000 | Total HK\$'000 |
|--|------------------|--|---|-------------------|
| Executive directors | | | | |
| Mr. Cheung Wai Kuen (<i>Chairman</i>) | 150 | – | – | 150 |
| Mr. Cheng Hau Yan (<i>Deputy Chairman</i>) | 150 | 1,560 | 18 | 1,728 |
| Mr. Ye Jiong Xian (<i>Chief Executive Officer</i>) | – | 460 | 18 | 478 |
| Non-executive directors | | | | |
| Mr. Hou Kaiwen | – | – | – | – |
| Mr. Lin Jiang | 150 | – | – | 150 |
| Independent non-executive directors | | | | |
| Mr. Lam Chi Wing | 150 | – | – | 150 |
| Mr. Mai Yang Guang | 150 | – | – | 150 |
| Mr. Wong Yiu Kit, Ernest | 150 | – | – | 150 |
| Total | 900 | 2,020 | 36 | 2,956 |

Notes to the Consolidated Financial Statements *(Continued)*

For the year ended 31 December 2019

12. DIRECTORS', SENIOR MANAGEMENT'S AND EMPLOYEES' EMOLUMENTS *(CONTINUED)*

(A) DIRECTORS' EMOLUMENTS (CONTINUED)

No emoluments were paid by the Group to the directors of the Company, its chief executive officer and senior management of the highest paid individuals as a discretionary bonus or an inducement to join or upon joining the Group or as compensation for loss of office during the years ended 31 December 2019 and 2018.

None of the directors of the Company and chief executive officer of the Company agreed to receive or waived any emoluments in the years ended 31 December 2019 and 2018.

No share option was held by directors as at 31 December 2019 and 2018. Details of the share award scheme are disclosed in note 38.

Notes:

- (i) Ms. Zhu Yufei was appointed as an executive director, a joint chairman of the Board and the chief executive officer, both with effect from 6 December 2019.
- (ii) Mr. Cheng Hau Yan was resigned as an executive director of the Company and deputy chairman of the Board, both with effect from 10 October 2019.
- (iii) Mr. Ye Jiong Xian was resigned as an executive director of the Company with effect from 14 February 2020.
- (iv) Mr. Li Runping was appointed as an executive director of the Company with effect from 16 April 2020.
- (v) Mr. Lin Jiang was re-designed as an executive director of the Company with effect from 14 February 2020.
- (vi) Mr. Hou Kaiwen was resigned as a non-executive director of the Company with effect from 14 February 2020.
- (vii) Mr. Wong Kin Man was appointed as a non-executive director of the Company with effect from 16 August 2019.
- (viii) Mr. Yang Zhibo was appointed as a non-executive director of the Company with effect from 16 April 2020.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2019



12. DIRECTORS', SENIOR MANAGEMENT'S AND EMPLOYEES' EMOLUMENTS (CONTINUED)

(B) FIVE HIGHEST PAID EMPLOYEES

Of the five individuals with the highest emoluments in the Group, two (2018: two) were directors of the Company whose emoluments were included in note 12(A) above. The emoluments of the remaining three (2018: three) individuals were as follows:

| | 2019 HK\$'000 | 2018 HK\$'000 |
|--|------------------|------------------|
| Salaries and other allowances | 1,961 | 1,914 |
| Contribution to retirement benefits scheme | 72 | 53 |
| | 2,033 | 1,967 |

Their emoluments were within the following bands:

| | 2019 HK\$'000 | 2018 HK\$'000 |
|----------------------|------------------|------------------|
| Nil to HK\$1,000,000 | 3 | 3 |

At the end of the reporting period, there was no forfeited contribution, which arose upon employees leaving the retirement benefits scheme and which are available to reduce the contribution payable in the futures years.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2019

13. INCOME TAX EXPENSE

| | 2019 HK\$'000 | 2018 HK\$'000 |
|---|------------------|------------------|
| Income tax expense comprises | | |
| Current tax – Hong Kong Profits tax | | |
| Charge for the year | 4,023 | 7,230 |
| Over provision in prior year | (4,025) | – |
| Current tax – PRC Enterprise income tax | | |
| Charge for the year | 19,268 | 449 |
| Under provision in prior year | 1,861 | 881 |
| Deferred tax | (2,088) | 208 |
| | 19,039 | 8,768 |

(A) HONG KONG PROFITS TAX

On 21 March 2018, the Hong Kong Legislative Council passed The Inland Revenue (Amendment) (No. 7) Bill 2017 (the “Bill”) which introduces the two-tiered profits tax rates regime. The Bill was signed into law on 28 March 2018 and was gazetted on the following day. Under the two-tiered profits tax rates regime, the first HK\$2 million of profits of the qualifying group entity will be taxed at 8.25%, and profits above HK\$2 million will be taxed at 16.5%. Accordingly, starting from the year ended 31 December 2018, the Hong Kong Profits Tax of the qualifying group entity is calculated at 8.25% on the first HK\$2 million of the estimated assessable profits and at 16.5% on the estimated assessable profits above HK\$2 million. The profits of group entities not qualified for the two-tiered profits tax rates regime continue to be taxed at a flat rate of 16.5%.

(B) PRC ENTERPRISE INCOME TAX

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% from 1 January 2008 onwards.

(C) CAYMAN ISLANDS AND BRITISH VIRGIN ISLANDS CORPORATE INCOME TAX

Pursuant to the rules and regulations of the Cayman Islands and the British Virgin Islands (the “BVI”), the Company and the Company’s subsidiaries registered in the BVI are not subject to any income tax in the Cayman Islands and BVI, respectively.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2019



13. INCOME TAX EXPENSE (CONTINUED)

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

| | 2019 | | 2018 | |
|---|----------|--------|----------|--------|
| | HK\$'000 | % | HK\$'000 | % |
| Profit before tax | 36,126 | | 19,876 | |
| Tax at the Hong Kong Profits Tax rate of 16.5% (2018: 16.5%) | 5,961 | 16.5 | 3,280 | 16.5 |
| Tax effect of share of result of associates | (1,378) | (3.8) | (3,990) | (20.0) |
| Tax effect of income not taxable for tax purpose | (3,630) | (10.0) | (555) | (2.8) |
| Tax effect of expenses not deductible for tax purpose | 9,638 | 26.7 | 7,235 | 36.4 |
| Tax effect of tax losses not recognised | 4,736 | 13.1 | 1,519 | 7.6 |
| Tax effect of utilisation of tax losses previously not recognised | (708) | (2.0) | (698) | (3.5) |
| (Over)/under provision in prior year | (2,164) | (6.0) | 881 | 4.4 |
| Others | – | – | 208 | 1.0 |
| Income tax at concessionary rate | (165) | (0.5) | (495) | (2.5) |
| Tax effect of different tax rates of subsidiaries operating in other jurisdictions | 6,749 | 18.7 | 1,383 | 7.0 |
| Income tax expense | 19,039 | 52.7 | 8,768 | 44.1 |

14. DIVIDENDS

The proposed final dividend of HK0.067 cents per ordinary share (2018: Nil) for the year is subject to the approval of the Company's shareholders at the forthcoming annual general meeting. These consolidated financial statements do not reflect the final dividend payable.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2019

15. EARNINGS PER SHARE

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

| | 2019 HK\$'000 | 2018 HK\$'000 |
|---|------------------|------------------|
| <i>Earnings</i> | | |
| Earnings for the purpose of basic and diluted earnings per share (profit for the year attributable to owners of the Company) | 11,237 | 2,160 |
| <i>Number of shares ('000)</i> | | |
| Weighted average number of ordinary shares for the purpose of basic and diluted earnings per share | 3,209,882 | 2,996,255 |

The calculation of earnings per share for the years ended 31 December 2019 and 2018 is based on the profit attributable to the owners of the Company for the years and the weighted average number of shares for the relevant period.

Diluted earnings per share is the same as the basic earnings per share for the years ended 31 December 2019 and 2018 as there were no potential dilutive ordinary shares in issue.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2019



16. PROPERTY, PLANT AND EQUIPMENT

| | Leasehold improvements HK\$'000 | Office equipment HK\$'000 | Furniture and fixture HK\$'000 | Computer software HK\$'000 | Equipment under finance lease HK\$'000 | Motor vehicle HK\$'000 | Medical equipment HK\$'000 | Construction in progress HK\$'000 | Total HK\$'000 |
|--|---------------------------------------|---------------------------------|--------------------------------------|----------------------------------|---|---------------------------|----------------------------------|---|-------------------|
| Cost: | | | | | | | | | |
| At 1 January 2018 | 25,483 | 1,653 | 1,743 | 276 | 33 | 4,309 | 9,936 | 218,037 | 261,470 |
| Additions | 2,353 | 34 | 1,262 | – | – | 1,949 | 17,419 | 2,514 | 25,531 |
| Transfer to properties under development | – | – | – | – | – | – | – | (209,174) | (209,174) |
| Written off | (183) | (75) | (201) | – | – | – | (441) | – | (900) |
| Exchange alignment | (653) | (8) | (57) | (8) | – | (48) | (204) | (11,377) | (12,355) |
| At 31 December 2018 | 27,000 | 1,604 | 2,747 | 268 | 33 | 6,210 | 26,710 | – | 64,572 |
| Transfer to right-of-use assets upon adoption of HKFRS 16 | – | – | – | – | (33) | (2,582) | – | – | (2,615) |
| At 1 January 2019 | 27,000 | 1,604 | 2,747 | 268 | – | 3,628 | 26,710 | – | 61,957 |
| Additions | 5,312 | 423 | 642 | 23 | – | – | 10,093 | 530 | 17,023 |
| Acquisition of subsidiaries (note 41) | 170,556 | 2,286 | 2,160 | 483 | – | – | 17,248 | – | 192,733 |
| Written off | – | (17) | – | – | – | – | (2,575) | – | (2,592) |
| Exchange alignment | (540) | (32) | (54) | (5) | – | (124) | (501) | – | (1,256) |
| At 31 December 2019 | 202,328 | 4,264 | 5,495 | 769 | – | 3,504 | 50,975 | 530 | 267,865 |
| Accumulated depreciation and impairment: | | | | | | | | | |
| At 1 January 2018 | 13,645 | 1,463 | 787 | 205 | 3 | 2,450 | 2,769 | – | 21,322 |
| Charge for the year | 4,243 | 226 | 314 | 23 | 7 | 936 | 8,480 | – | 14,229 |
| Written off | (52) | (5) | (2) | – | – | – | (111) | – | (170) |
| Exchange alignment | (310) | (131) | (91) | (5) | – | (33) | (345) | – | (915) |
| At 31 December 2018 | 17,526 | 1,553 | 1,008 | 223 | 10 | 3,353 | 10,793 | – | 34,466 |
| Transfer to right-of-use assets upon adoption of HKFRS 16 | – | – | – | – | (10) | (161) | – | – | (171) |
| At 1 January 2019 | 17,526 | 1,553 | 1,008 | 223 | – | 3,192 | 10,793 | – | 34,295 |
| Charge for the year | 15,630 | 451 | 698 | 142 | – | 342 | 7,484 | – | 24,747 |
| Written off | – | (12) | – | – | – | – | (1,130) | – | (1,142) |
| Exchange alignment | (418) | (25) | (42) | (4) | – | (257) | (414) | – | (1,160) |
| At 31 December 2019 | 32,738 | 1,967 | 1,664 | 361 | – | 3,277 | 16,733 | – | 56,740 |
| Carrying amounts: | | | | | | | | | |
| At 31 December 2019 | 169,590 | 2,297 | 3,831 | 408 | – | 227 | 34,242 | 530 | 211,125 |
| At 31 December 2018 | 9,474 | 51 | 1,739 | 45 | 23 | 2,857 | 15,917 | – | 30,106 |

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2019

16. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

LEASED ASSETS

Upon the adoption of HKFRS 16, certain of the motor vehicles and office equipment were reclassified to right-of-use assets as at 1 January 2019 (see note 2(a)).

17. RIGHT-OF-USE ASSETS/LEASE LIABILITIES

(A) RIGHT-OF-USE ASSETS

| | Motor vehicles HK\$'000 | Office equipment HK\$'000 | Office premises HK\$'000 | Total HK\$'000 |
|---|-------------------------------|---------------------------------|--------------------------------|-------------------|
| Cost | | | | |
| Application of HKFRS 16 at 1 January 2019 | 2,582 | 33 | 9,940 | 12,555 |
| Acquisition of subsidiaries (note 41) | – | – | 337,483 | 337,483 |
| Additions | – | – | 11,921 | 11,921 |
| Exchange alignment | – | – | (372) | (372) |
| At 31 December 2019 | 2,582 | 33 | 358,972 | 361,587 |
| Accumulated depreciation | | | | |
| Application of HKFRS 16 at 1 January 2019 | 161 | 10 | – | 171 |
| Charge for the year | 516 | 7 | 29,308 | 29,831 |
| Exchange alignment | – | – | (195) | (195) |
| At 31 December 2019 | 677 | 17 | 29,113 | 29,807 |
| Carrying amount | | | | |
| At 31 December 2019 | 1,905 | 16 | 329,859 | 331,780 |

The maturity analysis of lease liabilities is presented in note 17(B).

Right-of-use asset with carrying amount of approximately HK\$2,110,000 was carried under an operating lease with a related company.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2019



17. RIGHT-OF-USE ASSETS/LEASE LIABILITIES (CONTINUED)

(B) LEASE LIABILITIES

| | 2019 HK\$'000 |
|--------------|------------------|
| Analysed as: | |
| Non-current | 264,478 |
| Current | 77,012 |
| | 341,490 |

The remaining contractual maturities of the Group's lease liabilities at the end of the reporting period are as follows:

| | At 31 December 2019 | |
|---------------------------------------|---|---|
| | Present value of minimum lease payment HK\$'000 | Total minimum lease payments HK\$'000 |
| Within one year | 77,012 | 91,977 |
| After one year but within two years | 49,143 | 60,956 |
| After two years but within five years | 146,421 | 167,902 |
| After five years | 68,914 | 72,350 |
| | 264,478 | 301,208 |
| | 341,490 | 393,185 |
| Less: total future interest expenses | | (51,695) |
| Present value of lease liabilities | | 341,490 |

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2019

18. INTANGIBLE ASSETS

| | Land development right HK\$'000 | Trademark HK\$'000 | Total HK\$'000 |
|--|--|-----------------------|-------------------|
| At 1 January 2018 | 131,195 | 89,900 | 221,095 |
| Exchange alignment | (6,807) | – | (6,807) |
| At 31 December 2018 and 1 January 2019 | 124,388 | 89,900 | 214,288 |
| Acquisition of subsidiaries (note 41) | – | 611,416 | 611,416 |
| Exchange alignment | (2,163) | (589) | (2,752) |
| At 31 December 2019 | 122,225 | 700,727 | 822,952 |

The land development right was acquired by the Company through the acquisition of 100% equity interests of Harvest Luck Investment Limited (“Harvest Luck”) during the year ended 31 December 2016. The management of the Group considered that the legal rights of the land development rights is capable of being renewed indefinitely at insignificant cost and it is expected to generate positive cash flows indefinitely. The development rights will not be amortised until its useful life is determined to be finite upon reassessment of its useful life annually by the management. Instead, it will be tested for impairment annually and whenever there is an indication that it may be impaired. No impairment losses were recognised during the year.

The trademark from health industry with carrying amount of approximately HK\$89,900,000 was acquired by the Company through the acquisition of 100% equity interests of Golden Time Ventures Limited (“Golden Time Ventures”) during the year ended 31 December 2017.

The trademark from postpartum care services with carrying amount of approximately HK\$611,416,000 was acquired by the Company through the step-up acquisition of Shenzhen Aidigong Group during the year ended 31 December 2019. The directors have determined the fair value of intangible asset as at 13 September 2019 with reference to the valuation report prepared by an independent valuer.

The management of the Group considered that the trademarks from health industry and postpartum care services business are expected to generate positive cash flows indefinitely and therefore they have indefinite useful lives. The trademarks will not be amortised until its useful life are determined to be finite. Instead, it will be tested for impairment annually and whenever there is an indication that it may be impaired. Particulars of the impairment testing are disclosed in note 19.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2019



18. INTANGIBLE ASSETS (CONTINUED)

IMPAIRMENT TESTING OF INTANGIBLE ASSETS

For the purpose of impairment testing, intangible asset has been allocated to the following CGU. The carrying amount of intangible asset (net of accumulated impairment losses) at 31 December 2019 and 2018 was allocated as follow:

| | 2019 HK\$'000 | 2018 HK\$'000 |
|--------------------------|------------------|------------------|
| Postpartum care services | 610,827 | – |
| Health industry | 212,125 | 214,288 |

For impairment testing, please refer to note 19 for details.

19. GOODWILL

| | 2019 HK\$'000 | 2018 HK\$'000 |
|---------------------------------------|------------------|------------------|
| Cost | | |
| At 1 January | 229,010 | 229,010 |
| Acquisition of subsidiaries (note 41) | 398,903 | – |
| Exchange alignment | (384) | – |
| At 31 December | 627,529 | 229,010 |
| Accumulated impairment losses | | |
| At 1 January and 31 December | – | – |
| Carrying amounts | | |
| At 31 December | 627,529 | 229,010 |

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2019

19. GOODWILL (CONTINUED)

IMPAIRMENT TESTING OF GOODWILL

For the purpose of impairment testing, goodwill has been allocated to the following CGU. The carrying amount of goodwill (net of accumulated impairment losses) at 31 December 2019 and 2018 was allocated as follow:

| | 2019 HK\$'000 | 2018 HK\$'000 |
|--------------------------|------------------|------------------|
| Postpartum care services | 398,519 | – |
| Health industry | 229,010 | 229,010 |

(A) POSTPARTUM CARE SERVICES

The recoverable amount of this cash-generating units of postpartum care services business have been determined on a value in use calculation which use cash flow projection based on financial budgets approved by the directors and valued by the professional valuer covering a five year period, and discount rate of 17.91% per annum. Cash flows beyond that five-year period have been extrapolated using a steady 3.00% growth rate. This growth rate does not exceed the long-term average growth rate for the market.

The key assumptions used in the value-in-use calculations are as follows:

| | |
|-----------------------|---|
| Budgeted market share | Average market share in the period immediately before the budget period. The values assigned to the assumption reflect past experience. |
| Budgeted gross margin | Average gross margins achieved in the period immediately before the budget period which reflects the past experience. |



19. GOODWILL *(CONTINUED)*

(B) HEALTH INDUSTRY

The recoverable amount of the cash-generating units of health industry have been determined on a value in use calculation which use cash flow projections based on financial budget approved by the directors and valued by the professional valuer covering a five year period, and discount rate of 13.85% per annum (2018: 13.80%). Cash flows beyond that five-year period have been extrapolated using a steady 3.00% growth rate (2018: 3.00%). This growth rate does not exceed the long-term average growth rate for the market. Key assumptions included gross margin and discount rate which were determined by valuer and confirmed by the directors of the Company based on past performance and its expectation for market development. The values assigned to key assumptions are based on historical experience, current market condition, approved forecasts and consistent with external information sources.

Based on the value in use calculation determined by the management and independent valuer, the recoverable amount of postpartum care services CGU and health industry CGU exceeded its carrying amounts of goodwill and intangible assets allocated to CGU, no provision for impairment was recognised during both years.

The management believes that any reasonable possible change in any of these valuation assumptions would not cause the aggregate recoverable amount exceed its carrying amount of CGU.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2019

20. INTERESTS IN ASSOCIATES

| | 2019 HK\$'000 | 2018 HK\$'000 |
|--|------------------|------------------|
| Interests in associates, included in non-current assets: | | |
| Share of net assets | 103,938 | 108,922 |
| Goodwill on acquisition recognised by the Group (note (i)) | 87,623 | 114,867 |
| Interests in associates | 191,561 | 223,789 |
| Dividend from the associate during the year | 732 | 1,325 |

Details of the Group's material associates, which are held indirectly by the Company at the end of reporting period, are as follows:

| Name of associate | Form of business and structure | Place of incorporation | Class of registered capital held | Proportion of ownership interest and voting rights interest held by the Group | | Principal activities |
|---|--------------------------------|------------------------|----------------------------------|---|--------|--|
| | | | | 2019 | 2018 | |
| Guangdong Fengyuan Huake Bio Tech Company Limited* ("Fengyuan Group") (note 20B) | Incorporated | The PRC | Registered capital | 22.72% | 22.72% | Research, development and manufacturing of pharmaceutical products |
| Yangxi Fengyuan Huake Agriculture Integrated Development Company Limited* ("Fengyuan Group") (note 20B) | Incorporated | The PRC | Registered capital | 22.72% | 22.72% | Research, development and manufacturing of pharmaceutical products |
| Shanyang Fengyuan Huake Bio Tech Limited* ("Fengyuan Group") (note 20B) | Incorporated | The PRC | Registered capital | 22.72% | 22.72% | Research, development and manufacturing of pharmaceutical products |
| Dragon Pride Enterprises Limited ("Dragon Pride Group")# | Incorporated | The BVI | Registered | 12.2% | 24.4% | Investment holding |
| JP Partners Medical Centre Limited ("Dragon Pride Group")# | Incorporated | Hong Kong | Ordinary | 12.2% | 24.4% | Provision of medical services |
| JP Partners Medical Limited ("Dragon Pride Group")# | Incorporated | Hong Kong | Ordinary | 12.2% | 24.4% | Provision of medical services |
| Shenzhen Wanqi Marine Bio Tech Company Limited* ("Shenzhen Wanqi") (note 20A) | Incorporated | The PRC | Registered capital | 49.00% | 49.00% | Seahorse breeding |
| Shenzhen Xijianglang Technological and Cultural Company Limited* | Incorporated | The PRC | Registered capital | 36.00% | – | eCommerce platform for healthcare services |

* For identification purpose only

Were classified as equity investments at FVTOCI at 31 December 2019



20. INTERESTS IN ASSOCIATES (CONTINUED)

On 1 August 2018, Dragon Pride Enterprises Limited ("Dragon Pride"), an associate of the Group, issued shares to independent third parties in relation to acquisition of two subsidiaries, which result the Group's interests in Dragon Pride were diluted from 26.5% to 24.4%. A loss on deemed disposal of approximately HK\$571,000 was recognised in the consolidated statement of profit or loss.

In the prior year, the Group held 24.4% interest in Dragon Pride and accounted for the investment as an associate. During the year ended 31 December 2019, the Group disposed of 12.2% interest in Dragon Pride to a third party for proceeds of HK\$19,520,000. The Group has accounted for the remaining 12.2% interest as an equity investment whose fair value at the date of disposal was HK\$24,500,000, which was determined by an independent external valuer. The transaction has resulted in the recognition of a gain in profit or loss, calculated as follow.

| | HK\$'000 |
|--|----------|
| Proceeds of disposal | 19,520 |
| Add: fair value of investments retained – 12.2% | 24,500 |
| Less: carrying amount of the 24.4% investment on the date of loss of significant influence | (27,395) |
| Gain recognised | 16,625 |

During the year ended 31 December 2019, the Group acquired Shenzhen Xijianglang Technological and Cultural Company Limited through acquisition of Shenzhen Aidigong Group.

Particular of impairment testing on goodwill are disclosed below:

Note:

(i) Goodwill has been allocated for impairment testing purposes to the following cash generating units:

- Seahorse breeding
- Research, development and manufacturing of pharmaceutical products
- Provision of medical services

After recognition of impairment losses, the carrying amount of goodwill was allocated to cash-generating units as follows:

| | 2019 HK\$'000 | 2018 HK\$'000 |
|--|------------------|------------------|
| Seahorse breeding (note 20A) | 69,680 | 82,714 |
| Research, development and manufacturing of pharmaceutical products (note 20B) | 17,943 | 17,943 |
| Provision of medical services | – | 14,210 |
| | 87,623 | 114,867 |

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2019

20. INTERESTS IN ASSOCIATES (CONTINUED)

MATERIAL ASSOCIATE DISCLOSURES

The following table illustrates the summarised financial information of the material associate and have been adjusted to reflect the fair values of identifiable assets and liabilities at the completion dates of acquisition by the Group, and reconciled to the carrying amount in the consolidated financial statements:

(A) SHENZHEN WANQI

| | 2019 HK\$'000 | 2018 HK\$'000 |
|--|------------------|------------------|
| Non-current assets | 220 | 284 |
| Current assets | 31,103 | 33,544 |
| Current liabilities | (874) | (1,946) |
| Net assets attributable to shareholders of the associates | 30,449 | 31,882 |
| Reconciliation to the Group's investments in the associates | | |
| Proportion of the Group's ownership interest in the Shenzhen Wanqi | 49.0% | 49.0% |
| Group's share of net assets of the associates, excluding goodwill | 14,920 | 15,622 |
| Goodwill on acquisition recognised by the Group | 69,680 | 82,714 |
| Carrying amount of the Group's interests in the Shenzhen Wanqi | 84,600 | 98,336 |

There is no commitment and contingent liability under the associates.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2019



20. INTERESTS IN ASSOCIATES (CONTINUED)

MATERIAL ASSOCIATE DISCLOSURES (CONTINUED)

(A) SHENZHEN WANQI (CONTINUED)

OTHER DISCLOSURES

| | 2019 HK\$'000 | 2018 HK\$'000 |
|--|------------------|------------------|
| Revenue | 3,124 | 22,184 |
| Profit for the year | 70 | 14,245 |
| Profit for the year attributable to shareholders of the associate | 70 | 14,245 |
| Other comprehensive expense for the year | (547) | (1,104) |
| Other comprehensive expense of the year attributable to shareholders of the associates | (547) | (1,104) |
| Share of the associates' profit for the year | 34 | 6,980 |
| Share of the associates' other comprehensive expense for the year | (268) | (541) |

For the years ended 31 December 2019 and 2018, the recoverable amount of cash-generating units of seahorse breeding has been determined based on a value in use calculation which uses cash flow projection based on financial budgets approved by the directors and valued by the professional valuer covering a five year period, and discount rate of 16.25% (2018: 14%) per annum. Cash flows beyond that five-year period have been extrapolated using a steady 3.00% (2018: 3.00%) growth rate. This growth rate does not exceed the long-term average growth rate for the market. The key assumptions used in the value-in-use calculations are as follows:

| | |
|-----------------------|--|
| Budgeted market share | Average market share in the period immediately before the budget period. The values assigned to the assumption reflect past experience |
| Budgeted gross margin | Average gross margins achieved in the period immediately before the budget period which reflects the past experience |

During the year ended 31 December 2019, an impairment loss on interest in associates of approximately HK\$13,034,000 (2018: Nil) was recognised in the Group's consolidated statement of profit or loss in respect of Shenzhen Wanqi on the basis of decline in the recoverable amount which was below the carrying amount and adverse changes in the market in which the associate operated.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2019

20. INTERESTS IN ASSOCIATES (CONTINUED)

MATERIAL ASSOCIATE DISCLOSURES (CONTINUED)

(B) FENGYUAN GROUP

| | 2019 HK\$'000 | 2018 HK\$'000 |
|--|------------------|------------------|
| Current assets | 176,151 | 206,457 |
| Non-current assets | 27,668 | 27,372 |
| Current liabilities | (10,548) | (82,968) |
| Net assets | 193,271 | 150,861 |
| Less: Non-controlling interests | (10,205) | (7,965) |
| Net assets attributable to shareholders of the associates | 183,066 | 142,896 |
| Reconciliation to the Group's investments in the associates | | |
| Proportion of the Group's ownership interest in the Fengyuan Group | 22.72% | 22.72% |
| Group's share of net assets of the associates, excluding goodwill | 41,593 | 32,466 |
| Goodwill on acquisition recognised by the Group | 17,943 | 17,943 |
| Other reconciling items (note (i)) | 46,291 | 52,443 |
| Carrying amount of the Group's interests in the Fengyuan Group | 105,827 | 102,852 |

Notes:

- (i) Other reconciling items mainly represented additional capital injection attributable by the Group.
- (ii) There is no commitment and contingent liabilities under the associates.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2019



20. INTERESTS IN ASSOCIATES (CONTINUED)

MATERIAL ASSOCIATE DISCLOSURES (CONTINUED)

(B) FENGYUAN GROUP (CONTINUED)

OTHER DISCLOSURES

| | 2019 HK\$'000 | 2018 HK\$'000 |
|---|------------------|------------------|
| Revenue | 57,675 | 62,969 |
| Profit for the year | 27,001 | 34,006 |
| Profit for the year attributable to shareholders of the associate | 25,276 | 27,461 |
| Other comprehensive expense for the year | (3,299) | (8,367) |
| Other comprehensive expense for the year attributable to shareholders of the associates | (3,125) | (8,345) |
| Share of the associates' profit for the year | 5,743 | 6,239 |
| Share of the associates' other comprehensive expense for the year | (710) | (1,896) |

No impairment losses were recognised during both years as its recoverable amount exceeded its carrying amount.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2019

20. INTERESTS IN ASSOCIATES (CONTINUED)

DISCLOSURE ON OTHER ASSOCIATES THAT ARE NOT INDIVIDUALLY MATERIAL

(C) OTHERS

The following tables illustrate the aggregate financial information of the Group's associates that are not individually material:

| | 2019 HK\$'000 | 2018 HK\$'000 |
|---|------------------|------------------|
| Share of the associates' profit for the year | 2,574 | 4,152 |
| Share of the associates' other comprehensive expense for the year | (7) | – |
| Share of net assets of the associates, that are not individually material excluding goodwill recognised by the Group | 1,134 | 8,391 |
| Goodwill on acquisition recognised by the Group | – | 14,210 |
| Carrying amount of the Group's interests in the associates that are not individually material | 1,134 | 22,601 |

Notes to the Consolidated Financial Statements *(Continued)*

For the year ended 31 December 2019



21. INTERESTS IN JOINT VENTURES

Details of the Group's interest are as follows:

| | 2019 HK\$'000 | 2018 HK\$'000 |
|---------------------------------------|------------------|------------------|
| Cost of investments in joint ventures | | |
| Unlisted outside Hong Kong | 73,235 | 73,235 |
| Amounts due from joint ventures | 60,330 | 60,330 |
| | 133,565 | 133,565 |
| Impairment loss recognised | (133,565) | (133,565) |
| | – | – |

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2019

21. INTERESTS IN JOINT VENTURES (CONTINUED)

Details of the Group's joint ventures, which are held indirectly by the Company at the end of reporting period, are as follows:

| Name of joint venture | Form of business and structure | Place of incorporation | Class of shares held | Proportion of ownership interest and voting rights held by the Group | | Principal activities |
|---------------------------------|--------------------------------|------------------------|----------------------|--|------|----------------------|
| | | | | 2019 | 2018 | |
| Golden Royce Investment Limited | Incorporated | Hong Kong | Ordinary | 40% | 40% | Dormant |

22. EQUITY INVESTMENTS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

| | 2019 HK\$'000 | 2018 HK\$'000 |
|---|------------------|------------------|
| Equity investment at FVTOCI – Unlisted (notes) | 24,500 | 77,684 |

Notes:

- As at 31 December 2018, the Group's equity investments represent 6.43% effective equity interest in Shenzhen Aidigong Maternity Health Management Co., Limited. During the year ended 31 December 2019, the Group further acquired 88.5184% of Shenzhen Aidigong Group (note 41).
- During the year ended 31 December 2019, the Group's interests in Dragon Pride Enterprises Limited decreased from 24.4% to 12.2% and was classified as equity investments at FVTOCI with the carrying amount of HK\$24,500,000. Dragon Pride Group are principally engaged in the provision of medical services in Hong Kong (note 20).
- The directors considered the fair value of the equity investments refer to the valuation performed by independent qualified valuer (note 5(c)).

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2019



23. DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES

| | 2019 HK\$'000 | 2018 HK\$'000 |
|--|------------------|------------------|
| Deposits | 26,846 | 3,767 |
| Prepayments (note i) | 190,756 | 181,818 |
| Other receivables (note ii) | 92,945 | 68,341 |
| | 310,547 | 253,926 |
| Less: Allowance for expected credit losses | (13,331) | (7,310) |
| | 297,216 | 246,616 |
| Analysed for reporting purposes as: | | |
| Non-current | 43,159 | 111,350 |
| Current | 254,057 | 135,266 |
| | 297,216 | 246,616 |

The directors consider that carrying amounts of deposits paid and other receivables approximate to their fair values.

Notes:

- (i) The prepayments mainly comprised of (i) prepaid land cost situated at Luofu Mountain in Guangdong Province of approximately HK\$20,135,000, (ii) prepaid construction and development costs for Luofu Mountain projects of approximately HK\$60,840,000 and (iii) prepaid cost for procurement of raw material and finished goods for health industry business of approximately HK\$89,972,000 (2018: HK\$20,491,000, HK\$90,859,000 and HK\$59,112,000 respectively).
- (ii) As at 31 December 2019, the other receivables mainly comprised of payment related to medical anti-aging business and healthcare industry investment business of approximately HK\$74,908,000 (2018: HK\$56,770,000).

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2019

23. DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES (CONTINUED)

Movement in the allowance for expected credit losses in respect of deposits and other receivables during the year is as follows:

| | 2019 HK\$'000 | 2018 HK\$'000 |
|---|------------------|------------------|
| Balance at 1 January | 7,310 | 3,608 |
| Allowance for expected credit losses recognised during the year | 6,021 | 3,702 |
| Balance at 31 December | 13,331 | 7,310 |

Details of allowance for expected credit losses assessment for the years ended 31 December 2019 and 2018 are set out in note 5(b).

The allowance for expected credit losses further increased by approximately HK\$6,021,000 (2018: HK\$3,702,000) for other receivables during the year.

24. TRADE RECEIVABLES

| | 2019 HK\$'000 | 2018 HK\$'000 |
|--|------------------|------------------|
| Trade receivables | 36,045 | 31,388 |
| Less: Allowance for expected credit losses | (1,058) | (37) |
| | 34,987 | 31,351 |

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2019



24. TRADE RECEIVABLES (CONTINUED)

The Group generally allows an average credit period ranging from 30 to 90 days (2018: 30 to 90 days) to its trade customers. The following is an aged analysis of trade receivables (net of allowance for expected credit losses), at the end of the reporting period:

| | 2019 HK\$'000 | 2018 HK\$'000 |
|-----------------|------------------|------------------|
| 0 to 30 days | 14,403 | 2,575 |
| 31 to 60 days | 19,084 | 14,832 |
| 61 to 90 days | 1,500 | 9,288 |
| 91 to 120 days | – | 34 |
| 121 to 180 days | – | 4,622 |
| | 34,987 | 31,351 |

Allowance for expected credit losses of approximately HK\$1,058,000 have been recognised for trade receivables as at 31 December 2019 (2018: HK\$37,000).

The Group maintains a defined credit policy to assess the credit quality of each counterparty. The collection is closely monitored to minimise any credit risk associated with these trade receivables.

Receivables that were past due but not impaired relate to a number of independent customers that have a good track record with the Group or with sound financial background. For any significant amounts past due, the Group would actively seek repayment from the debtors and the Group would enforce its legal right to the contractually due amount when considered necessary. There have been no disputes over the balances due from these customers, therefore the balances are considered fully recoverable. The Group does not hold any collateral over these balances.

Movement in the allowance for expected credit losses in respect of trade receivables during the year is as follows:

| | 2019 HK\$'000 | 2018 HK\$'000 |
|--|------------------|------------------|
| Balance at 1 January | 37 | 67 |
| Allowance for/(reversal of) expected credit losses during the year | 1,021 | (30) |
| Balance at 31 December | 1,058 | 37 |

Details of impairment assessment under expected credit loss model of trade receivables for the years ended 31 December 2019 and 2018 set out in note 5(b).

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2019

25. INVENTORIES

| | 2019 HK\$'000 | 2018 HK\$'000 |
|----------------|------------------|------------------|
| Finished goods | 35,918 | 29,062 |

The directors have assessed the net realisable values and condition of the Group's inventories as at 31 December 2019 and 2018 and have considered no write-down of obsolete inventories to be made.

26. PROPERTIES UNDER DEVELOPMENT

| | 2019 HK\$'000 | 2018 HK\$'000 |
|---|------------------|------------------|
| Properties under development comprised of: | | |
| – Construction costs and capitalised expenditures | 68,871 | 28,803 |
| – Land use rights | 177,235 | 180,371 |
| | 246,106 | 209,174 |

During the year ended 31 December 2018, the Group reviewed and reassessed the project in Luofu Mountain, the PRC, and concluded that properties are intended for sale after completion of development and will be completed in normal operating cycle. The management of the Group considered that there was a change in use for those properties based on the latest development plan and were therefore reclassified from construction in progress under property, plant and equipment.

As at 31 December 2019, the land use right with carrying amount of approximately HK\$87,572,000 (2018: Nil) has been provided as security for bank borrowing (note 36).



27. LOAN TO A SHAREHOLDER

On 5 October 2018, the Company, as lender, Champion Dynasty Limited ("Champion Dynasty"), as borrower and Mr. Cheung Wai Kuen, as an individual guarantor entered a new facility agreement, to renew a three-year revolving loan facility of up to HK\$200,000,000 to Champion Dynasty at an interest rate of 12% per annum. The loan was carried with the term of repayable on demand clause.

Details of the loan were set out in the Company's circular dated 2 November 2018.

| Name of a shareholder | Maximum amount outstanding during the year HK\$'000 | 2019 | 2018 |
|--|--|----------|----------|
| | | HK\$'000 | HK\$'000 |
| Champion Dynasty | 64,081 | 45,508 | 28,612 |
| Less: Allowance for expected credit losses | | (65) | (38) |
| | | 45,443 | 28,574 |

Movement in the loss allowance account in respect of loan to a shareholder during the year is as follows:

| | 2019 | 2018 |
|--|----------|----------|
| | HK\$'000 | HK\$'000 |
| Balance at 1 January | 38 | 84 |
| Allowance for/(reversal of) expected credit losses during the year | 27 | (46) |
| Balance at 31 December | 65 | 38 |

Details of allowance for expected credit losses assessment for the years ended 31 December 2019 and 2018 are set out in note 5(b).

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2019

28. SHORT-TERM LOANS RECEIVABLE

| | 2019 HK\$'000 | 2018 HK\$'000 |
|---|------------------|------------------|
| Loans receivable | | |
| With no guarantee (note (i)) | 35,221 | 40,200 |
| Less: Allowance for expected credit losses | (488) | (152) |
| Carrying amount within one year (note (ii)) | 34,733 | 40,048 |

Notes:

- (i) Loans receivable are denominated in Hong Kong dollars and carried at fixed effective interest of 12% per annum.
- (ii) The following is an aged analysis for the loans receivable at the end of the reporting period:

| | 2019 HK\$'000 | 2018 HK\$'000 |
|---------------|------------------|------------------|
| 31 to 60 days | 24,652 | 24,909 |
| Over 90 days | 10,081 | 15,139 |
| | 34,733 | 40,048 |

Total short-term loans receivable at 31 December 2019 and 2018 was not past due. The amount due are based on the scheduled repayment dates set out in the loan agreements. All loans are repayable within one year.

Movement in the loss allowance account in respect of short-term loans receivable during the year is as follows:

| | 2019 HK\$'000 | 2018 HK\$'000 |
|--|------------------|------------------|
| Balance at 1 January | 152 | 152 |
| Allowance for expected credit losses during the year | 336 | – |
| Balance at 31 December | 488 | 152 |

Details of allowance for expected credit losses assessment for the years ended 31 December 2019 and 2018 are set out in note 5(b).



29. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS/BANK AND CASH BALANCES

(A) FINANCIAL ASSETS AT FVTPL

| | 2019 HK\$'000 | 2018 HK\$'000 |
|--------------------------|------------------|------------------|
| Structured bank deposits | 146,164 | — |

Structured bank deposits generally include foreign currency, commodity price, or assets linked structured bank deposits ("SBDs") placed by the Group to a number of banks. Pursuant to the relevant underlying agreements, the SBDs generally carry interest income at the interest rate range from 2% to 4% per annum with reference to the performance of foreign currency, commodity price, or assets during the investment period and the principal sums are denominated in RMB. Certain of the structured bank deposits are capital guaranteed. The structured bank deposits are either redeemable on demand or have a maturity date ranged from three to seven months.

(B) BANK AND CASH BALANCES

Cash at bank earns interest at floating rates based on daily bank deposit rates. Short term time deposits are denominated in HK\$ and RMB which made for varying periods between one day and three months depending on the immediate cash requirements of the Group, and earn interest at the respective short term time deposit rates.

At 31 December 2019, the Group's bank and cash balances denominated in RMB are approximately HK\$66,959,000 (2018: HK\$2,996,000).

The RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2019

30. TRADE PAYABLES

The following is an aged analysis of trade payables, based on the invoice date:

| | 2019 HK\$'000 | 2018 HK\$'000 |
|-----------------|------------------|------------------|
| 0 to 30 days | 17,135 | 246 |
| 31 to 60 days | 3,560 | – |
| 181 to 365 days | 724 | 154 |
| Over 365 days | – | 42 |
| | 21,419 | 442 |

The average credit period granted by suppliers ranges from 0 to 30 days.

31. ACCRUALS AND OTHER PAYABLES/CONTRACT LIABILITIES

(A) ACCRUALS AND OTHER PAYABLES

| | 2019 HK\$'000 | 2018 HK\$'000 |
|-----------------------|------------------|------------------|
| Accruals | 35,596 | 7,800 |
| Other payables (note) | 84,397 | 27,774 |
| | 119,993 | 35,574 |

Note:

Other payables mainly comprised of approximately (a) HK\$3,864,000 (2018: HK\$12,256,000) consideration payable to third parties for development and construction of the Luofu Mountain project, (b) HK\$2,538,000 (2018: HK\$12,286,000) interest payable for the guaranteed notes and bonds payable and (c) HK\$65,668,000 advance payment from independent third parties.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2019



31. ACCRUALS AND OTHER PAYABLES/CONTRACT LIABILITIES (CONTINUED)

(B) CONTRACT LIABILITIES

| | 2019 HK\$'000 | 2018 HK\$'000 |
|-----------------------------|------------------|------------------|
| Contract liabilities (note) | 225,934 | 87,227 |

Note:

At 31 December 2019, contract liabilities mainly comprised of approximately (a) HK\$52,156,000 (2018: HK\$53,577,000) of deposits received from customers on sales of raw materials and finished goods of natural health food and (b) HK\$168,464,000 of deferred income relating to postpartum care services and medical anti-aging healthcare services (2018: HK\$26,499,000 relating to anti-aging healthcare services).

MOVEMENTS IN CONTRACT LIABILITIES

| | 2019 HK\$'000 | 2018 HK\$'000 |
|--|------------------|------------------|
| As at 1 January | 87,227 | 35,342 |
| Decrease in contract liabilities as a result of recognising revenue during the year | (81,121) | (33,042) |
| Acquisition of subsidiaries (note 41) | 185,123 | – |
| Increase in contract liabilities as a result of receiving deposits during the year in respect of services not yet rendered as at 31 December | 34,705 | 84,927 |
| As at 31 December | 225,934 | 87,227 |

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2019

32. OBLIGATION UNDER FINANCE LEASES

The Group leased certain of its motor vehicles and office equipment under finance leases. The lease term was ranged from 4 to 5 years. The borrowing rate was ranging from 7.92% to 16.12% per annum as at 31 December 2018. All leases were on a fixed repayment basis and no arrangement was entered into for contingent rental payments.

As at 31 December 2018, the total future minimum lease payments under finance lease and present value were as follows:

| | Minimum lease payments 31 December 2018 HK\$'000 | Present value of minimum lease payment 31 December 2018 HK\$'000 |
|---|--|---|
| Amounts payable under finance leases: | | |
| Within one year | 412 | 367 |
| Later than one year but not later than five years | 1,032 | 983 |
| | 1,444 | 1,350 |
| Less: future finance charges | (94) | – |
| Present value of lease obligation | 1,350 | 1,350 |
| Less: Amount due for settlement within 12 months (shown under current liabilities) | | (367) |
| Amount due for settlement after 12 months | | 983 |

The Group's obligation under a finance lease is secured by the lessor's charge over the leased asset with the carrying amount of approximately HK\$1,350,000. All obligation under a finance lease is denominated in Hong Kong dollar.

Upon the adoption of HKFRS 16, the obligation under finance leases were reclassified to lease liabilities as at 1 January 2019 (see note 2(a)).

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2019



33. SHARE CAPITAL

| | Number of shares '000 | Share capital HK\$'000 |
|---|-----------------------------|---------------------------|
| Ordinary shares of HK\$0.01 each | | |
| Authorised: | | |
| At 1 January 2018, 31 December 2018, 1 January 2019 and 31 December 2019 | 80,000,000 | 800,000 |
| Issued and fully paid: | | |
| At 1 January 2018, 31 December 2018 and 1 January 2019 | 2,996,255 | 29,962 |
| Share capital issued under subscription agreement (note (i)) | 500,000 | 5,000 |
| Share capital issued under placing (note (ii)) | 334,660 | 3,347 |
| At 31 December 2019 | 3,830,915 | 38,309 |

Notes:

- (i) On 17 September 2019, an aggregate of 500,000,000 new shares have been issued at the subscription price of HK\$0.4 per subscription share. Details of the subscription are set out in the Company's announcements dated 29 May 2019.
- (ii) On 17 September 2019 and 31 December 2019, the Company completed a share placing for an aggregate for 234,660,000 and 100,000,000 shares at a placing price of HK\$0.4 and HK\$0.5 per share to independent investors. Details of the placement are set out in the Company's announcements dated 29 May 2019 and 18 December 2019.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2019

34. DEFERRED INCOME TAXES

| | 2019 HK\$'000 | 2018 HK\$'000 |
|--------------------------|------------------|------------------|
| Deferred tax assets | 6,517 | – |
| Deferred tax liabilities | (167,572) | (15,157) |

The movements of deferred income tax assets were as follows:

| | Accrued expenses HK\$'000 | Loss available for offset future taxable profit HK\$'000 | Allowance for expected credit losses HK\$'000 | Total HK\$'000 |
|--|---------------------------------|--|--|-------------------|
| At 1 January 2019 | – | – | – | – |
| Acquisition of subsidiaries (note 41) | 877 | 3,021 | 547 | 4,445 |
| Credit/(charge) to the consolidated statement of profit or loss and other comprehensive income | 1,929 | (694) | 846 | 2,081 |
| Exchange alignment | (2) | (6) | (1) | (9) |
| At 31 December 2019 | 2,804 | 2,321 | 1,392 | 6,517 |

At the end of the reporting period, the Group has unused tax losses of approximately HK\$613,953,000 (2018: HK\$589,541,000) available for offset against future profits. A deferred tax asset has been recognised in respect of HK\$9,286,000 (2018: nil) of such losses. No deferred tax asset has been recognised in respect of the remaining HK\$604,667,000 (2018: HK\$589,541,000) due to the unpredictability of future profit streams. Included in unrecognised tax losses are losses of HK\$9,286,000 (2018: nil) that will expire in 2024. Other losses may be carried forward indefinitely.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2019



34. DEFERRED INCOME TAXES (CONTINUED)

Deferred income taxes are calculated in full on temporary differences under the liability method using the tax rates which are expected to apply at the time of reversal of the temporary differences.

The movements of deferred tax liabilities were as follows:

| | Intangible assets HK\$'000 | Property, plant and equipment HK\$'000 | Total HK\$'000 |
|--|----------------------------------|---|-------------------|
| At 1 January 2018 | 14,834 | 115 | 14,949 |
| Charge to the consolidated statement of profit or loss and other comprehensive income | – | 208 | 208 |
| At 31 December 2018 and 1 January 2019 | 14,834 | 323 | 15,157 |
| Acquisition of subsidiaries | 152,854 | – | 152,854 |
| Credit to the consolidated statement of profit or loss and other comprehensive income | – | (7) | (7) |
| Exchange alignment | (432) | – | (432) |
| At 31 December 2019 | 167,256 | 316 | 167,572 |

Under the EIT Law of the PRC, withholding tax is imposed on dividends declared in respect of profits earned by the PRC subsidiaries from 1 January 2008 onwards. Deferred tax has not been provided for in the consolidated financial statements in respect of temporary differences attributable to the profits earned by the PRC subsidiaries as the Group is able to control the timing of the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2019

35. GUARANTEED NOTES AND BONDS PAYABLE

GUARANTEED NOTES:

| | 2019 HK\$'000 | 2018 HK\$'000 |
|---------------------------|------------------|------------------|
| At 1 January | 80,310 | 99,710 |
| Imputed interest expenses | 6,282 | 11,545 |
| Repayment | (80,000) | (20,000) |
| Interest paid | (6,592) | (6,856) |
| Interest payable | – | (4,089) |
| At 31 December | – | 80,310 |
| Current liabilities | – | 80,310 |

On 21 December 2016, the Company issued 11% guaranteed notes due 15 August 2018 with an aggregate principal amount of HK\$100,000,000. The obligations of the Company under the guaranteed notes are guaranteed by (i) the shares of Sassoon Global Limited and Harvest Luck; and (ii) undertaking granted from Champion Dynasty and Mr. Cheung Wai Kuen. Details of the information were set out in the Company's announcement dated 15 December 2016.

During the year ended 31 December 2018, guaranteed notes with principal amount of HK\$20,000,000 were repaid with the remaining principal amount of HK\$80,000,000 extended and was due in 2019. The outstanding principal amount of HK\$80,000,000 were fully repaid by the Group during the year ended 31 December 2019.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2019



35. GUARANTEED NOTES AND BONDS PAYABLE (CONTINUED)

LONG-TERM AND SHORT-TERM BONDS PAYABLE:

| | 2019 HK\$'000 | 2018 HK\$'000 |
|--|------------------|------------------|
| At 1 January | 166,482 | 113,880 |
| Initial recognition, net of related expenses | 84,462 | 8,028 |
| Transfer from convertible note (note (ii)) | – | 77,500 |
| Repayment | (134,300) | (37,800) |
| Imputed interest expenses | 21,862 | 17,221 |
| Interest paid | (14,431) | (4,150) |
| Interest payable | (2,538) | (8,197) |
| At 31 December | 121,537 | 166,482 |
| Current liabilities | 32,616 | 132,899 |
| Non-current liabilities | 88,921 | 33,583 |
| | 121,537 | 166,482 |

- (i) During the year ended 31 December 2019, the Company, through an independent placing agent issued coupon bonds for an aggregate principal amount of HK\$97,200,000 (2018: HK\$8,500,000), which carry a fixed coupon interest rate of 6% and 7% per annum (2018: 6% and 7% per annum) respectively. The bonds are unsecured and will mature on the date falling on the second and third anniversary of the date of issue of the bonds. The net proceeds are intended to be used for general capital of the Group. The bonds are subsequently measured at amortised cost.

As at 31 December 2019, the bonds payable with principal amount of HK\$126,700,000 will be due between January 2020 and November 2022. The effective interest rates are ranging from 10.48% to 13.42% (2018: 6.35% to 12.55%).

- (ii) On 15 August 2018, the liability and derivative component of the convertible bonds with the carrying amount of HK\$77,500,000 was derecognised and being transferred to the bonds payable. In December 2018, HK\$15,500,000 of principal of the short-term bond was repaid. The bonds are interest bearing at 9% per annum. The net proceeds were used for general capital of the Group. The outstanding principal amount of HK\$62,000,000 were fully repaid by the Group during the year ended 31 December 2019.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2019

36. BANK AND OTHER BORROWINGS

Bank and other borrowings comprised of:

| | 2019 HK\$'000 | 2018 HK\$'000 |
|--|------------------|------------------|
| Bank borrowings, secured (note (i)) | 459,753 | – |
| Bank borrowings, unsecured (note (ii)) | 5,593 | – |
| Bank borrowings, guaranteed (note (iii)) | 1,119 | 1,138 |
| Other borrowings, unsecured (note (iv)) | 15,000 | 15,000 |
| Total borrowings | 481,465 | 16,138 |

| | 2019 HK\$'000 | 2018 HK\$'000 |
|----------------------------|------------------|------------------|
| Carrying amount repayable: | | |
| Within 1 year or on demand | 106,727 | 16,138 |
| Between 1 to 5 years | 178,979 | – |
| Over 5 years | 195,759 | – |
| | 481,465 | 16,138 |

Notes:

- (i) On 12 September 2019, Guangdong Common Splendor Health Industry Group Limited ("Guangdong CS"), a wholly-owned subsidiary of the Company, as borrower, with Dongguan Rural Commercial Bank Co., Ltd. ("DRC Bank"), as lender, pursuant to which, DRC Bank, Donglian Branch agreed to make available to Guangdong CS the Loan Facilities of up to an aggregate principal amount of RMB340,000,000 (equivalent to approximately HK\$380,331,000). The bank loans were secured by following:
- (a) a pledge of 88.5184% shares of Shenzhen Aidigong;
 - (b) personal guarantee by related parties; and
 - (c) corporate guarantee by its wholly-owned subsidiaries, Guangdong Common Splendor Supply Chain Management Limited and Dongguan Great King Health Industry Company Limited.

The principal was due between 2020 and 2026 and the annual interest rate of above loans ranged from 6.89% to 7.11%,

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2019



36. BANK AND OTHER BORROWINGS (CONTINUED)

Notes: (Continued)

(i) (Continued)

On 22 April 2019, the Group through a non-wholly owned subsidiary, Guangdong Weijingfang entered into a bank facility agreement with Bank of Dongguan Co., Ltd. The bank loans of RMB71,000,000 (equivalent to approximately HK\$79,422,000) were secured by following:

- (a) corporate guarantee by related companies;
- (b) a personal guarantee by Mr. Cheung Wai Kuen, the Joint Chairman of the Company; and
- (c) a parcel of land of the Group in Luofu Maintain with carrying amount of approximately HK\$87,572,000.

The principal was due in 2020 with the interest rate charged at 6.53%.

- (ii) Unsecured bank borrowing of RMB5,000,000 (equivalent to approximately HK\$5,593,000) was due in 2020 with the interest rate charged at 3.73%.
- (iii) At 31 December 2019, the bank borrowings with carrying amount of approximately HK\$1,119,000 (2018: HK\$1,138,000) was carried at 5.0025% and repayable within one year. The obligation of the Company under the bank borrowings is guaranteed by Ms. Tan Xiao Li, a supervisor of Guangzhou Realyoung Integrated Clinix Limited, a non-wholly-owned subsidiary of the Company.
- (iv) At 31 December 2019, the other borrowings of HK\$15,000,000 (2018: HK\$15,000,000) were provided by a private company and an independent third party. The interest rate was charged at 9.00% per annum. The principal is repayable within one year.

The Group's borrowings are denominated in the following currencies:

| | 2019 HK\$'000 | 2018 HK\$'000 |
|------------------|------------------|------------------|
| Hong Kong Dollar | 15,000 | 15,000 |
| RMB | 466,465 | 1,138 |
| | 481,465 | 16,138 |

Notes to the Consolidated Financial Statements *(Continued)*

For the year ended 31 December 2019

37. SHARE OPTION SCHEME

The Company adopted a share option scheme (the “Share Option Scheme”) pursuant to an ordinary resolution passed at the annual general meeting of the Company held on 11 October 2012.

The major terms of the Share Option Scheme are summarised as follows:

- (a) The primary purpose of the Share Option Scheme is to provide incentives or rewards to eligible participants for their contribution to the Group.
- (b) The Share Option Scheme will expire on 10 October 2022.
- (c) The eligible participants include:
 - (1) any employee (whether full time or part time, including any executive director of the Company and non-executive director of the Company) of any member of the Company, any of its subsidiaries or any entity (“Invested Entity”);
 - (2) any independent non-executive directors of the Company of any member of the Group or any Invested Entity;
 - (3) any supplier of goods or services to any member of the Group or any Invested Entity;
 - (4) any customer of any member of the Group or any Invested Entity;
 - (5) any person or entity that provides research, development or other support (technical or otherwise) to any member of the Group or any Invested Entity;
 - (6) any shareholder of any member of the Group or any Invested Entity or any holder of any securities issued by any member of the Group or any Invested Entity;
 - (7) any adviser or consultant (professional or otherwise) to any area of business or business development of any member of the Group or any Invested Entity; and
 - (8) any other group or classes of participants who have contributed or may contribute by way of joint ventures, business alliance or other business arrangement to the development and growth of the Group.

and, for the purpose of the Share Option Scheme, any grant may be made to any company controlled by one or more eligible participants.



37. SHARE OPTION SCHEME *(CONTINUED)*

- (d) Maximum number of Shares:
- (1) The overall limit on the number of share which may be issued upon exercise of all outstanding share options granted and yet to be exercised under the Share Option Scheme and any other share option schemes of the Group must not exceed 30% of the shares in issues from time to time. The total number of shares available for issue under the Share Option Scheme is 259,625,000 Shares, which represent 8.66% of the total issued share capital of the Company as at the date of the report.
 - (2) Subject to the above overall limit, the total number of shares which may be issued upon exercise of all share options to be granted under the Share Option Scheme and all other share option scheme of the Group must not, in aggregate, exceed 10% of the shares in issue as at the date of approval of the Share Option Scheme (the "General Scheme Limit"). The Company may refresh the General Scheme Limit subject to approval of the shareholders in general meeting, provided that the General Scheme Limit as refreshed must not exceed 10% of the shares in issue as at the date of the approval of the refreshed limit.
- (e) A non-refundable nominal consideration of HK\$1.00 is payable by the grantee upon acceptance of the grant of share options. Share options may be exercised at any time during the period to be determined and identified by the board of directors of the Company, but in any event no later than ten years from the date of grant but subject to the early termination of the Share Option Scheme.
- (f) The subscription prices for shares under the Share Option Scheme shall be a price determined by the board of directors of the Company, but shall not be less than the highest of:
- (1) the closing price of the shares at stated in the Stock Exchange's daily quotations sheets on the date of offer for the grant;
 - (2) the average closing price of the shares as stated in the Stock Exchange's daily quotations sheets for the five business days immediately preceding the date of offer for the grant; and
 - (3) the nominal value of the shares.
- (g) Share options granted should be accepted within 21 days from date of offer.
- (h) Share options granted vested at the date of grant.
- (i) Share options are valid for a period from 18 December 2012 to 10 October 2022 (both days inclusive) with remaining life of approximately 4.5 years as at the date of this report and can be exercisable in full or in part. The share options granted can be exercised since 18 December 2012 until they are exercised or lapsed.

During the year ended 31 December 2019, no share options were granted or exercised (2018: Nil).

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2019

38. SHARE AWARD SCHEME

A share award scheme was adopted on 30 August 2018 by the Company to recognise the contributions by certain personnel of the Group, to provide them with incentives in order to retain them for the continued operation and development of the Group, and to attract suitable personnel for further development of the Group. Subject to any early termination determined by the Board of Directors of the Company, the share award scheme is valid and effective for a period of ten years commencing on 30 August 2018. The Board of Directors of the Company may at its discretion grant any eligible participant awarded shares, provided that the total number of awarded shares shall not exceed 3% of the issued share capital of the Company as at the date of grant.

The share award scheme is operated through a trustee which is independent of the Group. The Board may either (i) cause to allot and issue new Shares to the Trustee at the Subscription Price under the Scheme Mandate or the General Mandate (as the case may be) (1) as Awarded Shares in the event that the Board has selected certain Eligible Persons as Selected Participants or (2) from time to time for future Award, and the Board shall in such events cause an amount equal to the Subscription Price of such new Shares to be allotted and issued under the Scheme Mandate or the General Mandate (as the case may be) be transferred from the Company's resources as soon as practicable prior to the allotment and issuance of such Shares as subscription monies for the new Shares to the Trustee or (ii) from time to time instruct the Trustee in writing to purchase Shares on the Stock Exchange out of the Trust Fund.

In the event that the aggregate interests of connected persons of the Company under the share award scheme exceeds 30% at any time during the life of the share award scheme, the Trustee will become a connected person of the Company under the Listing Rules. In such event, any issue and allotment of new shares to the Trustee in satisfaction of awards granted under the share award scheme will constitute connected transactions of the Company subject to independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

No share award has been granted since the adoption of the Share Award Scheme.

39. COMMITMENTS

(A) OPERATING LEASES COMMITMENT

THE GROUP AS LESSOR

At the end of reporting period, the Group had contracted with merchants for floor areas around the Nanshan postpartum care centre for the following minimum lease payments under non-cancelable operating leases of the following period.

| | 2019 HK\$'000 |
|---------------------------------------|------------------|
| Within one year | 16,726 |
| In the second to fifth year inclusive | 37,147 |
| | 53,873 |



39. COMMITMENTS (CONTINUED)

(A) OPERATING LEASES COMMITMENT (CONTINUED)

THE GROUP AS LESSEE

As at 31 December 2018, the Group had commitments for future minimum lease payments under non-cancellable operating leases in respect of rented premises with lease terms which fall due as follows:

| | 2018 HK\$'000 |
|---------------------------------------|------------------|
| Within one year | 7,868 |
| In the second to fifth year inclusive | 6,587 |
| Over five years | 5,012 |
| | 19,467 |

Rentals are fixed and no arrangement has been entered into for contingent rental payment.

The Group is the lessee in respect of a number of office premise and items of equipment held under leases which were previously classified as operating leases under HKAS 17. The Group has initially applied HKFRS 16 using the modified retrospective approach. Under this approach, the Group adjusted the opening balances at 1 January 2019 to recognize lease liabilities relating to these leases as disclosed in Note 2. From 1 January 2019 onwards, future lease payments are recognised as lease liabilities in the consolidated statement of financial position in accordance with the policies set out in Note 3, and the details regarding the Group's future lease payments are disclosed in Note 17.

(B) CAPITAL COMMITMENT

As at 31 December 2019, the Group had a capital commitment amounted to approximately RMB3,526,000 (equivalent to approximately HK\$3,944,000) (2018: RMB20,000,000 (equivalent to approximately HK\$22,768,000)) which is related to the construction of Luofu Mountain Project.

Notes to the Consolidated Financial Statements *(Continued)*

For the year ended 31 December 2019

40. RETIREMENT BENEFIT SCHEME

The Group operates the Mandatory Provident Fund Scheme ("MPF Scheme"). Contributions to the MPF Scheme are based on a percentage of employees' salaries ranging from 5% to 10%, depending upon the length of service of the employees. From 1 December 2000, newly joined employees are compulsorily required to join the MPF Scheme. The employer and its employees are each required to make contributions to the scheme at rates specified in the rules of the MPF Scheme.

The employees employed in the PRC subsidiaries are members of the state-managed retirement benefits schemes operated by the China government. The PRC subsidiaries are required to contribute to the retirement benefits schemes based on a certain percentage of their payroll to fund the benefits. The only obligation of the Group with respect to these retirement benefits schemes is to make the required contributions under the schemes.

The total costs charged to the consolidated statement of profit or loss and other comprehensive income approximately HK\$3,111,000 (2018: HK\$1,014,000) represented contributions payable to these schemes by the Group for the year.

41. ACQUISITION OF SUBSIDIARIES

ACQUISITION OF SHENZHEN AIDIGONG GROUP

On September 2019, the Company entered into an agreement with independent third parties, in relation to acquisition of 88.5184% in Shenzhen Aidigong Group at a consideration of approximately HK\$968,209,000. The Shenzhen Aidigong Group mainly engaged in the operation of postpartum care centres and the provision of postpartum health services to postpartum mothers and newborn child in the PRC. The acquisition was completed on 13 September 2019.

Immediately before the step-up acquisition, the Group held 11.4816% equity interests in Shenzhen Aidigong Group through a non-wholly owned subsidiary of the Company. Upon completion of the step-up acquisition, the Group held aggregate approximately 94.95% effective interest having taken into account the Group's 56% interest in a non-wholly owned subsidiary holding such 11.4816% equity interest in Shenzhen Aidigong Group.

The acquisition has been accounted for using the acquisition method.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2019



41. ACQUISITION OF SUBSIDIARIES (CONTINUED)

ACQUISITION OF SHENZHEN AIDIGONG GROUP (CONTINUED)

FAIR VALUE OF THE ASSETS ACQUIRED AND LIABILITIES RECOGNISED AT THE DATE OF ACQUISITION

| | HK\$'000 |
|---|-----------|
| Property, plant and equipment | 192,733 |
| Right-of-use assets | 337,483 |
| Intangible assets | 611,416 |
| Interests in an associate | 924 |
| Deferred tax assets | 4,445 |
| Inventories | 4,119 |
| Deposits, prepayments and other receivables | 47,616 |
| Bank and cash balances | 42,083 |
| Financial assets at FVTPL | 207,357 |
| Deferred tax liabilities | (152,854) |
| Trade payables | (20,397) |
| Accruals, deposits received and other payables | (53,642) |
| Contract liabilities | (185,123) |
| Lease liabilities | (347,297) |
| Tax payables | (17,521) |
| Net assets acquired | 671,342 |
| Fair value of 11.4816% equity interest of Shenzhen Aidigong Group | (102,036) |
| Goodwill (note 19) | 398,903 |
| Total consideration | 968,209 |
| Consideration satisfied by: | |
| Cash | 647,905 |
| Contingent consideration payable | 320,304 |
| Total consideration | 968,209 |
| Net cash outflow in respect of acquisition of subsidiaries | |
| Consideration paid | (647,905) |
| Cash and cash equivalent balance acquired | 42,083 |
| Net cash outflow | (605,822) |

Acquisition-related costs amounting to HK\$4,058,000 have been recognised as an expense in the year, within the “administrative expenses” line item in the consolidated statement of profit or loss and other comprehensive income.

The contingent consideration will be settled based on future expected profits after tax in the financial years ending 31 December 2019 and 2020. The directors have assumed that the required financial results of the contingent consideration for the year ending 31 December 2019 and 2020 can be fulfilled.

Note: As at 31 December 2019, contingent consideration of approximately HK\$208,613,000 and HK\$117,203,000, representing the fourth and the fifth installment of the acquisition and will be settled based on future expected profits after tax in the financial years ending 31 December 2019 and 2020 respectively.

Notes to the Consolidated Financial Statements *(Continued)*

For the year ended 31 December 2019

41. ACQUISITION OF SUBSIDIARIES *(CONTINUED)*

ACQUISITION OF SHENZHEN AIDIGONG GROUP (CONTINUED)

IMPACT OF ACQUISITION ON THE RESULTS OF THE GROUP

Since the step-up acquisition, Shenzhen Aidigong Group contributed approximately HK\$232,828,000 to the Group's revenue and profit of approximately HK\$59,944,000 included in the consolidated statement of profit or loss and other comprehensive income for the year ended 31 December 2019.

Had the step-up acquisition taken place at the beginning of the year, the revenue of the Group and the profit of the Group for the year ended 31 December 2019 would have been approximately HK\$1,036,267,000 and HK\$62,095,000, respectively.

42. TRANSACTIONS WITH NON-CONTROLLING INTERESTS

- (a) On 6 March 2019, Gold Stable Limited ("Gold Stable"), a wholly-owned subsidiary of the Company, as the purchaser, and the Billion High Worldwide Investments Limited ("Billion High"), as the vendor, entered into the acquisition agreement, acquired an additional 30% of Wealthy Kingdom Group Limited and its subsidiaries ("Wealthy Kingdom Group") at a consideration of approximately HK\$11,712,000. The carrying amount of the non-controlling interests in Wealthy Kingdom Group was approximately HK\$14,633,000. Upon completion of the acquisition, Wealthy Kingdom Group became wholly-owned subsidiaries of the Group and result an increase in equity attributable to owners of the Company of approximately HK\$2,921,000.
- (b) During the year ended 31 December 2018, the Group, through its wholly-owned subsidiary, Guangzhou Common Splendor Health Technology Limited disposed 49% equity interest in Guangzhou Common Splendor Stem Cell Limited at an aggregate consideration of RMB2,500,001 (equivalent to approximately HK\$2,847,000), with carrying amount of the non-controlling interests in Guangzhou Common Splendor Stem Cell Limited was approximately HK\$348,000. All relevant approvals from the competent regulatory authorities in the PRC under the applicable PRC laws and regulations for the transfer have been obtained, and the transfer was completed on 11 October 2018. Upon completion of the above transaction, the Group's interests in Guangzhou Common Splendor Stem Cell Limited was decreased from 100% to 51%, and result an increase in equity attributable to owners of the Company of approximately HK\$2,499,000.

43. MAJOR NON-CASH TRANSACTIONS

During the current year, the Group entered into the following major non-cash transactions which are not reflected in the consolidated statement of cash flows:

- the Group disposed of its previously held equity interest in Shenzhen Aidigong Group, as part of consideration of the step-up acquisition and equity investment at fair value through other comprehensive income reserve of approximately HK\$13,604,000 was released to retained earnings.
- the Group had non-cash additions to right-of-use assets and lease liabilities of HK\$11,921,000 and HK\$11,921,000, respectively, in respect of lease arrangements for office premises.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2019



44. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

| | Lease liabilities (note 17) HK\$'000 | Bank and other borrowings (note 36) HK\$'000 | Obligation under a finance lease (note 32) HK\$'000 | Guaranteed notes and bonds payable (note 35) HK\$'000 | Convertible notes HK\$'000 | Total HK\$'000 |
|---|--|--|---|---|-------------------------------|-------------------|
| At 1 January 2018 | – | 12,204 | 31 | 213,590 | 75,480 | 301,305 |
| Proceeds from borrowings and bonds | – | 11,138 | – | 8,028 | – | 19,166 |
| Repayment of borrowings and bonds | – | (7,204) | – | (57,800) | – | (65,004) |
| Repayment of convertible note | – | – | – | – | (1,000) | (1,000) |
| Repayment of obligation under a finance lease | – | – | (181) | – | – | (181) |
| Interest paid | – | (941) | (210) | (11,006) | (7,150) | (19,307) |
| Non-cash changes | | | | | | |
| Interest payable | – | – | – | (12,286) | – | (12,286) |
| Finance cost recognised | – | 941 | 210 | 28,766 | 7,807 | 37,724 |
| Loss from modification of convertible note | – | – | – | – | 2,363 | 2,363 |
| Transfers | – | – | – | 77,500 | (77,500) | – |
| New finance lease | – | – | 1,500 | – | – | 1,500 |
| At 31 December 2018 | – | 16,138 | 1,350 | 246,792 | – | 264,280 |
| At 1 January 2019 | 11,290 | 16,138 | – | 246,792 | – | 274,220 |
| Proceeds from borrowings and bonds | – | 481,465 | – | 84,462 | – | 565,927 |
| Repayment of borrowings and bonds | – | (16,138) | – | (214,300) | – | (230,438) |
| Interest paid | (5,013) | (11,651) | – | (21,023) | – | (37,687) |
| Capital element of lease rentals paid | (17,298) | – | – | – | – | (17,298) |
| Non-cash changes | | | | | | |
| Acquisition of subsidiaries | 347,498 | – | – | – | – | 347,498 |
| Interest payable | – | – | – | (2,538) | – | (2,538) |
| Finance cost recognised | 5,013 | 11,651 | – | 28,144 | – | 44,808 |
| At 31 December 2019 | 341,490 | 481,465 | – | 121,537 | – | 944,492 |

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2019

45. MATERIAL RELATED PARTIES TRANSACTIONS

In addition to the transactions and balances detailed elsewhere in the consolidated financial statements, the Group and the Company had the following material transactions with related parties during the year:

| | 2019 HK\$'000 | 2018 HK\$'000 |
|---|------------------|------------------|
| Interest income on loan to a shareholder (note (i)) | 2,772 | 7,819 |
| Finance cost to a related company (note (ii)) | 18 | – |
| Salaries and other allowances paid to a spouse of a director of the Company | 1,088 | 884 |
| Contributions to retirement benefit scheme paid to a spouse of a director of the Company | 18 | 18 |

Notes:

- (i) At 31 December 2019, the Group lent to Champion Dynasty with the sum of HK\$45,443,000 (2018: HK\$28,574,000) which bearing interest rate at 12% per annum.
- (ii) This related company is ultimately controlled by a substantial shareholder of the Company. Right-of-use asset with carrying amount of approximately HK\$2,110,000 was carried under an operating lease with a related company (note 17(A)).

Pursuant to Rules 14A.25 and 14A.31 of the Listing Rules, the loan to a shareholder constitutes financial assistance and a continuing connected transaction of the Company. An ordinary resolution was passed at the special general meeting of the Company held on 19 November 2018 to approve the renewal of the loan and the annual cap amounts.

BALANCES WITH RELATED PARTIES:

Details of the balances with related parties at the end of reporting period are set out in notes 20 and 27.

KEY MANAGEMENT PERSONNEL EMOLUMENTS:

Remuneration for key management personnel is disclosed in note 12.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2019



46. INFORMATION ABOUT THE STATEMENT OF FINANCIAL POSITION OF THE COMPANY

The Company's statement of financial position at 31 December 2019 and 2018 are as follows:

| | 2019 HK\$'000 | 2018 HK\$'000 |
|--|------------------|------------------|
| Non-current assets | | |
| Interests in subsidiaries | 917,823 | 783,127 |
| Right-of-use assets | 2,110 | – |
| | 919,933 | 783,127 |
| Current assets | | |
| Deposits, prepayment and other receivables | 2,945 | 2,556 |
| Loan to a shareholder | 45,443 | 28,574 |
| Bank and cash balances | 8,203 | 235 |
| | 56,591 | 31,365 |
| Current liabilities | | |
| Accruals and other payables | 4,758 | 10,833 |
| Lease liabilities | 1,123 | – |
| Guaranteed notes and bonds payable | 32,616 | 213,209 |
| Other borrowings | 15,000 | 15,000 |
| | 53,497 | 239,042 |
| Net current assets/(liabilities) | 3,094 | (207,677) |
| Total assets less current liabilities | 923,027 | 575,450 |
| Capital and reserves | | |
| Share capital | 38,309 | 29,962 |
| Reserves | 763,094 | 501,245 |
| Total equity | 801,403 | 531,207 |

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2019

46. INFORMATION ABOUT THE STATEMENT OF FINANCIAL POSITION OF THE COMPANY

(CONTINUED)

The Company's statement of financial position at 31 December 2019 and 2018 are as follows: (Continued)

| | 2019 HK\$'000 | 2018 HK\$'000 |
|------------------------------------|------------------|------------------|
| Non-current liabilities | | |
| Amount due to subsidiaries | 31,725 | 10,660 |
| Lease liabilities | 978 | – |
| Guaranteed notes and bonds payable | 88,921 | 33,583 |
| | 121,624 | 44,243 |
| | 923,027 | 575,450 |

The financial statement were approved and authorised for issue by the board of directors of the Company on 11 May 2020 and signed on its behalf by:

Zhu Yufei
Director

Cheung Wai Kuen
Director

Notes to the Consolidated Financial Statements *(Continued)*

For the year ended 31 December 2019



47. RESERVES OF THE COMPANY

| | Share capital HK\$'000 | Share premium HK\$'000 | Accumulated losses HK\$'000 | Total equity HK\$'000 |
|---|------------------------------|------------------------------|-----------------------------------|-----------------------------|
| At 1 January 2018 | 29,962 | 681,198 | (136,605) | 574,555 |
| Loss for the year | – | – | (43,348) | (43,348) |
| Total comprehensive expense for the year | – | – | (43,348) | (43,348) |
| At 31 December 2018 and 1 January 2019 | 29,962 | 681,198 | (179,953) | 531,207 |
| Loss for the year | – | – | (71,980) | (71,980) |
| Total comprehensive expense for the year | – | – | (71,980) | (71,980) |
| Proceeds from share subscription | 5,000 | 195,000 | – | 200,000 |
| Proceeds from placing | 3,347 | 140,517 | – | 143,864 |
| Share issue costs | – | (1,688) | – | (1,688) |
| At 31 December 2019 | 38,309 | 1,015,027 | (251,933) | 801,403 |

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2019

48. INTERESTS IN SUBSIDIARIES

Details of the Group's major subsidiaries at the end of the reporting period are as follows.

| Name of subsidiaries | Place of incorporation/ operation | Class of shares/ registered capital held | Fully paid share capital/ registered capital | Proportion of nominal value of paid capital/registered capital held by the Company | | | | Principal activities |
|--|--------------------------------------|---|---|--|------|------------|---------|------------------------------------|
| | | | | Directly | | Indirectly | | |
| | | | | 2019 | 2018 | 2019 | 2018 | |
| Shenzhen Aidigong* | The PRC | Registered | RMB10,000,000/ RMB10,000,000 | – | – | 94.95% | – | Postpartum care services |
| Chengdu Aidigong* | The PRC | Registered | RMB10,000,000/ RMB10,000,000 | – | – | 94.95% | – | Postpartum care services |
| Beijing Aidigong* | The PRC | Registered | RMB2,000,000/ RMB2,000,000 | – | – | 94.95% | – | Postpartum care services |
| G-Prop Services Limited | Hong Kong | Ordinary | HK\$2 | – | – | 100% | 100% | Investment and finance |
| Golden Circle Investment Limited | Hong Kong | Ordinary | HK\$2 | – | – | 100% | 100% | Provision of management services |
| Guangdong Common Splendor Supply Chain Management Limited* | The PRC | Registered as limited liability company | HK\$187,282,375/ HK\$300,000,000 | – | – | 100% | 100% | Precision life healthcare services |
| Guangdong Fengshuo Bio Medical Tech Company Limited* | The PRC | Registered as limited liability company | RMB75,000,000/ RMB75,000,000 | – | – | 100% | 100% | Bio-medical technology |
| Guangdong Weijingfang Food Limited* ("Guangdong Weijingfang") | The PRC | Registered as limited liability company | RMB15,000,000/ RMB30,000,000 | – | – | 51% | 51% | Natural health food trading |
| Realyoung International Life Medical Group (Hong Kong) Company Limited | Hong Kong | Ordinary | HK\$2 | – | – | 100% | 100% | Precision life healthcare services |
| Guangzhou Common Splendor Health Technology Limited* | The PRC | Registered | HK\$7,734,289/ HK\$30,000,000 | – | – | 97.725% | 97.725% | Precision life healthcare services |
| Guangzhou Realyoung Integrated Clinix Limited* | The PRC | Registered | RMB7,900,000/ RMB10,000,000 | – | – | 97.725% | 97.725% | Precision life healthcare services |
| Huizhou Chuangxing Zhongliang Property Limited* ("Guangdong Common Splendor Zhongliang Healthcare Industry") | The PRC | Registered | RMB1,000,000/ RMB1,000,000 | – | – | 51% | 51% | Properties development |
| Huizhou Eastern Zhongliang Investment Limited* ("Guangdong Common Splendor Zhongliang Healthcare Industry") | The PRC | Registered | RMB10,000,000/ RMB10,000,000 | – | – | 51% | 51% | Properties development |
| Huizhou Zhongliang Health Services Limited* ("Guangdong Common Splendor Zhongliang Healthcare Industry") | The PRC | Registered | N/A/ RMB10,000,000 | – | – | 51% | 51% | Properties development |
| High Choice Development Limited | BVI | Registered | USD10,000 | – | – | 80% | 80% | Management holding |
| eAesthetic Holdings Limited | Hong Kong | Ordinary | HK\$1 | – | – | 80% | 80% | Aesthetic and beauty treatment |
| eClinix Holdings Limited | Hong Kong | Ordinary | HK\$1 | – | – | 80% | 80% | Aesthetic and beauty treatment |
| Medik Pro Aesthetics & Anti Aging Institution Limited | Hong Kong | Ordinary | HK\$100,000 | – | – | 80% | 80% | Aesthetic and beauty treatment |

* For identification purpose only

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2019



48. INTERESTS IN SUBSIDIARIES (CONTINUED)

None of the subsidiaries had issued any debt securities subsisting at the end of the reporting period or at any time during the reporting period.

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

The table below shows details of non-wholly owned subsidiaries of the Group that have material non-controlling interests:

| Name of subsidiaries | Proportion of ownership interests and voting rights held by non-controlling interests | | Profit/(loss) allocated to non-controlling interests | | Accumulated non-controlling interests | |
|--|---|-----------|---|------------------|--|------------------|
| | 2019 % | 2018 % | 2019 HK\$'000 | 2018 HK\$'000 | 2019 HK\$'000 | 2018 HK\$'000 |
| Guangdong Weijingfang | 49.00 | 49.00 | (356) | 433 | 8,978 | 10,194 |
| Guangdong Common Splendor Zhongliang Healthcare Industry | 49.00 | 49.00 | (577) | (333) | 122,187 | 130,998 |
| High Choice Developments Limited | 20.00 | 20.00 | 2,322 | 5,735 | 9,875 | 7,553 |
| Individually immaterial subsidiaries with non-controlling interests | | | 4,461 | 3,113 | 62,358 | 62,985 |
| | | | 5,850 | 8,948 | 203,398 | 211,730 |

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2019

48. INTERESTS IN SUBSIDIARIES (CONTINUED)

Summarised financial information in respect of each of the Group's subsidiaries that has material non-controlling interests is set out below. The summarised financial information below represents amounts before intragroup eliminations.

| Name of subsidiaries | Guangdong Weijingfang | | Guangdong Common Splendor Zhongliang Healthcare Industry | | High Choice Investments Limited | |
|--|-----------------------|------------------|--|------------------|---------------------------------|------------------|
| | 2019 HK\$'000 | 2018 HK\$'000 | 2019 HK\$'000 | 2018 HK\$'000 | 2019 HK\$'000 | 2018 HK\$'000 |
| Current assets | 206,694 | 74,637 | 318,824 | 336,888 | 54,509 | 52,675 |
| Non-current assets | 16 | 33 | 122,225 | 111,350 | 6,761 | 4,834 |
| Current liabilities | (188,387) | (53,865) | (191,688) | (180,895) | (10,332) | (19,746) |
| Non-current liabilities | - | - | - | - | (1,564) | - |
| Equity attributable to owners of the Company | 9,345 | 10,611 | 127,174 | 136,345 | 39,499 | 30,210 |
| Non-controlling interest | 8,978 | 10,194 | 122,187 | 130,998 | 9,875 | 7,553 |

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2019



48. INTERESTS IN SUBSIDIARIES (CONTINUED)

| | Guangdong Weijingfang | | Guangdong Common Splendor Zhongliang Healthcare Industry | | High Choice Investments Limited | |
|---|-----------------------|------------------|--|------------------|---------------------------------|------------------|
| | 2019 HK\$'000 | 2018 HK\$'000 | 2019 HK\$'000 | 2018 HK\$'000 | 2019 HK\$'000 | 2018 HK\$'000 |
| Revenue | 284,381 | 249,795 | – | – | 37,994 | 56,674 |
| Expenses | (285,107) | (249,075) | (1,178) | (679) | (26,384) | (28,000) |
| (Loss)/profit for the year | (726) | 883 | (1,178) | (679) | 11,610 | 28,674 |
| (Loss)/profit attributable to the owners of the Company | (370) | 450 | (601) | (346) | 9,288 | 22,939 |
| (Loss)/profit attributable to non-controlling interest | (356) | 433 | (577) | (333) | 2,322 | 5,735 |
| (Loss)/profit for the year | (726) | 883 | (1,178) | (679) | 11,610 | 28,674 |
| Other comprehensive expenses attributable to the owners of the Company | (895) | (569) | (8,570) | (7,531) | – | – |
| Other comprehensive expenses attributable to non-controlling interest | (860) | (547) | (8,234) | (7,235) | – | – |
| Other comprehensive expenses | (1,755) | (1,116) | (16,804) | (14,766) | – | – |
| Total comprehensive (expenses)/income attributable to the owners of the Company | (1,265) | (119) | (9,171) | (7,877) | 9,288 | 22,939 |
| Total comprehensive (expenses)/income attributable to non-controlling interest | (1,216) | (114) | (8,811) | (7,568) | 2,322 | 5,735 |
| Total comprehensive (expenses)/income | (2,481) | (233) | (17,982) | (15,445) | 11,610 | 28,674 |
| Net cash (outflow)/inflow from operating activities | (79,448) | 2,457 | 41,010 | 2,500 | (96) | 3,902 |
| Net cash outflow from investing activities | – | – | (40,924) | (2,514) | (16) | (2,273) |
| Net cash inflow/(outflow) from financing activities | 79,422 | (2,277) | – | – | (2,390) | – |
| Net cash (outflow)/inflow | (26) | (180) | 86 | (14) | (2,502) | 1,629 |

Notes to the Consolidated Financial Statements *(Continued)*

For the year ended 31 December 2019

49. EVENTS AFTER REPORTING PERIOD

- (A) Since January 2020, the outbreak on Novel Coronavirus (“COVID-19”) has impacted the global business environment. Up to the date of these consolidated financial statements, COVID-19 cause certain impact on the Group’s natural health food business and medical anti-aging business. However, the postpartum care services business remains stable. Pending the development and spread of COVID-19 subsequent to the date of the consolidated financial statements, further changes in economic conditions for the Group arising thereof may have impact on the financial results of the Group, the extent of which could not be estimated as at the date of these consolidated financial statements. The Group will continue to monitor the development of COVID-19 and react actively to its impact on the financial position and operating results of the Group.
- (B) On 31 March 2020, the board announced that the net profit of Shenzhen Aidigong Group for the financial year ended 31 December 2019 amounted to approximately RMB70,724,000. As such, the Group was required to pay the fourth installment in the maximum amount of RMB200,000,000 to the management vendors in proportion to their respective shareholdings within ten business days after the issue of the PRC audited account of Shenzhen Aidigong Group for the financial year ended 31 December 2019.

50. COMPARATIVE FIGURES

The Group has initially applied HKFRS 16 on 1 January 2019. Under the transition method, comparative information is not restated. Further details of the change in accounting policies are disclosed in note 2.

51. AUTHORISATION FOR ISSUE OF THE CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements were approved and authorised for issue by the Board of Directors of the Company on 11 May 2020.

Five-year Financial Summary

For the year ended 31 December 2019



Summary of the results, assets and liabilities of the Group for the last five years are as follows:

RESULTS

| | | For the year ended 31 December | | | |
|--|----------|--------------------------------|----------|----------|----------|
| | 2019 | 2018 | 2017 | 2016 | 2015 |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| Revenue | 610,612 | 377,035 | 474,933 | 554,962 | 530,290 |
| Profit before income tax | 36,126 | 19,876 | 18,239 | 56,259 | 49,052 |
| Income tax expense | (19,039) | (8,768) | (8,798) | (9,098) | (6,946) |
| Profit for the year | 17,087 | 11,108 | 9,441 | 47,161 | 42,106 |
| Profit for the year attributable to: | | | | | |
| Owners of the Company | 11,237 | 2,160 | 1,422 | 42,096 | 34,009 |
| Non-controlling interest | 5,850 | 8,948 | 8,019 | 5,065 | 8,097 |
| | 17,087 | 11,108 | 9,441 | 47,161 | 42,106 |
| Earning per share (HK cents) | | | | | |
| Basic | 0.35 | 0.07 | 0.05 | 1.62 | 1.36 |
| Diluted | 0.35 | 0.07 | 0.05 | 1.62 | 1.36 |
| Final dividend per share (HK cents) | 0.067 | – | – | – | – |
| Special dividend per share (HK cents) | – | – | – | – | – |

Five-year Financial Summary *(Continued)*

For the year ended 31 December 2019

ASSETS AND LIABILITIES

| | | At 31 December | | | |
|--|----------------------|----------------|---------------|---------------|---------------|
| | 2019 | 2018 | 2017 | 2016 | 2015 |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| Total assets | 3,136,629 | 1,367,718 | 1,372,237 | 972,649 | 672,631 |
| Total liabilities | (1,829,822) | (405,491) | (394,026) | (305,099) | (126,276) |
| | 1,306,807 | 962,227 | 978,211 | 667,550 | 546,355 |
| Net asset value per share attributable to owners of the Company (HK\$) | 0.34 | 0.32 | 0.33 | 0.26 | 0.21 |
| Number of share issued | 3,830,915,008 | 2,996,255,008 | 2,996,255,008 | 2,596,255,008 | 2,596,255,008 |



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