CHINA BIOTECH SERVICES HOLDINGS LIMITED
中國生物科技服務控股有限公司

(Incorporated in the Cayman Islands and continued in Bermuda with limited liability)

(Stock code: 8037)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2018

CHARACTERISTICS OF GEM OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE "STOCK EXCHANGE")

GEM has been positioned as a market designed to accommodate small and mid-sized companies to which a higher investment risk may be attached than other companies listed on the Stock Exchange. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration.

Given that companies listed on GEM are generally small and mid-sized, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board of the Stock Exchange and no assurance is given that there will be a liquid market in the securities traded on GEM.

*This announcement, for which the directors (the "**Directors**") of China Biotech Services Holdings Limited (the "**Company**") collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on GEM (the "**GEM Listing Rules**") for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief the information contained in this announcement is accurate and complete in all material respects and not misleading or deceptive; and there are no other matters the omission of which would make any statement herein or this announcement misleading.*

FINAL RESULTS

The board ("**Board**") of Directors of the Company announces that the audited consolidated results of the Company and its subsidiaries (collectively, the "**Group**") for the year ended 31 December 2018, together with the comparative figures for the year ended 31 December 2017, as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2018

	Notes	**2018** **HK$'000**	2017 HK$'000
Gross proceeds	4	**70,304**	216,850
Revenue	4	**70,304**	105,135
Cost of sales		**(42,220)**	(74,933)
Gross profit		**28,084**	30,202
Net loss on financial assets at fair value through profit or loss		**(397)**	(32,671)
Other income, gains/(losses)	5	**2,430**	667
Allowance for impairment loss on financial assets, net		**(3,724)**	(2,732)
Selling and distribution expenses		**(16,966)**	(16,807)
Administrative expenses		**(78,988)**	(51,944)
Loss from operations		**(69,561)**	(73,285)
Finance costs	7	**(3,472)**	(2,189)
Share of (loss)/profits of associates		**(460)**	6,642
Loss on disposal of asset held for sales		**–**	(493)
Gain on disposal of associates		**–**	8,066
Gain on disposal of subsidiaries		**4,249**	2,473
Impairment loss on available-for-sale financial assets		**–**	(4,049)
Impairment loss on goodwill		**–**	(1,478)
Impairment loss on intangible assets		**–**	(11,085)
Loss before tax		**(69,244)**	(75,398)
Income tax expense	8	**(189)**	(1,132)
Loss for the year	9	**(69,433)**	(76,530)
Loss for the year attributable to:			
Owners of the Company		**(64,250)**	(63,022)
Non-controlling interests		**(5,183)**	(13,508)
		(69,433)	(76,530)

	Notes	2018 HK$'000	2017 HK$'000
Loss for the year		**(69,433)**	(76,530)
Other comprehensive income after tax:			
Items that will not be reclassified to profit or loss:			
Fair value change of financial assets at fair value through other comprehensive income (FVTOCI)		**(2,432)**	–
		(2,432)	–
Items that may be reclassified to profit or loss:			
Exchange differences on translating foreign operations		**251**	1,215
Release of exchange differences upon disposal of assets held for sales		**–**	1,716
Release of exchange differences upon disposal of investments in associates		**–**	(184)
Release of exchange differences upon disposal of investments in subsidiaries		**1,870**	1,728
Share of exchange differences of investments in associates		**3**	596
		2,124	5,071
Other comprehensive income for the year, net of tax		**(308)**	5,071
Total comprehensive income for the year		**(69,741)**	(71,459)
Total comprehensive income for the year attributable to:			
Owners of the Company		**(64,719)**	(58,386)
Non-controlling interests		**(5,022)**	(13,073)
		(69,741)	(71,459)
Loss per share	11		
Basic and diluted (cents)		**7.3**	7.9

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 31 DECEMBER 2018

	Notes	2018 HK$'000	2017 HK$'000
ASSETS			
Non-current assets			
Property, plant and equipment		**22,954**	41,428
Prepaid land lease payments		**–**	8,175
Goodwill		**264**	264
Intangible assets		**43,436**	44,661
Investments in associates		**4,828**	5,285
Financial assets at FVTOCI	12	**48,297**	–
Available-for-sales financial assets	12	**–**	21,612
		119,779	121,425
Current assets			
Prepaid land lease payments		**–**	241
Inventories		**3,488**	6,579
Trade and other receivables	13	**32,830**	83,945
Loan and interest receivables		**24,186**	15,017
Held for trading securities		**2,569**	2,966
Income tax recoverable		**430**	46
Bank and cash balances		**154,479**	73,181
Total current assets		**217,982**	181,975
TOTAL ASSETS		**337,761**	303,400

	Notes	**2018** *HK$'000*	2017 *HK$'000*
EQUITY AND LIABILITIES			
Share capital		**93,535**	85,637
Other reserves		**230,542**	169,037
Equity attributable to owners of the Company		**324,077**	254,674
Non-controlling interests		**(5,162)**	(3,366)
Total equity		**318,915**	251,308
LIABILITIES			
Non-current liabilities			
Loan from a non-controlling shareholder of a subsidiary		**1,603**	4,759
Deferred tax liabilities		**1,406**	1,598
		3,009	6,357
Current liabilities			
Trade and other payables	14	**12,551**	18,444
Loan from a non-controlling shareholder of a subsidiary		**3,267**	–
Bank and other borrowings		**–**	26,784
Current tax liabilities		**19**	507
Total current liabilities		**15,837**	45,735
TOTAL EQUITY AND LIABILITIES		**337,761**	303,400

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2018

	Attributable to owners of the Company										
	Share capital *HK$'000*	Share premium *HK$'000*	Share-based payment reserve *HK$'000*	Special reserve *HK$'000*	Other reserve *HK$'000*	Financial assets at FVTOCI reserve *HK$'000*	Foreign currency translation reserve *HK$'000*	Accumulated losses *HK$'000*	Sub-Total *HK$'000*	Non-controlling interests *HK$'000*	Total equity *HK$'000*
At 1 January 2017	78,837	279,068	–	212,948	4,163	–	(5,949)	(303,557)	265,510	9,707	275,217
Total comprehensive income for the year	–	–	–	–	–	–	1,376	(63,022)	(61,646)	(13,073)	(74,719)
Release of exchange difference upon disposal of assets held for sales	–	–	–	–	–	–	1,716	–	1,716	–	1,716
Release of exchange difference upon disposal of associates	–	–	–	–	–	–	(184)	–	(184)	–	(184)
Release of exchange differences upon disposal of investments in subsidiaries	–		–	–	–	–	1,728	–	1,728	–	1,728
Top-up share subscription	6,800	40,800	–	–	–	–	–	–	47,600	–	47,600
Less: Share issue expenses	–	(50)	–	–	–	–	–	–	(50)	–	(50)
Changes in equity for the year	6,800	40,750	–	–	–	–	4,636	(63,022)	(10,836)	(13,073)	(23,909)
At 31 December 2017	85,637	319,818	–	212,948	4,163	–	(1,313)	(366,579)	254,674	(3,366)	251,308
At 1 January 2018	**85,637**	**319,818**	**–**	**212,948**	**4,163**	**–**	**(1,313)**	**(366,579)**	**254,674**	**(3,366)**	**251,308**
Adjustments on initial application of HKFRS 9 *(note 3)*	**–**	**–**	**–**	**–**	**–**	**(7,970)**	**–**	**(1,386)**	**(9,356)**	**(569)**	**(9,925)**
Restated balance at 1 January 2018	**85,637**	**319,818**	**–**	**212,948**	**4,163**	**(7,970)**	**(1,313)**	**(367,965)**	**245,318**	**(3,935)**	**241,383**
Total comprehensive income for the year	**–**	**–**	**–**	**–**	**–**	**(2,432)**	**93**	**(64,250)**	**(66,589)**	**(5,022)**	**(71,611)**
Release of exchange difference upon disposal of investments in subsidiaries	**–**	**–**	**–**	**–**	**–**	**–**	**1,870**	**–**	**1,870**	**–**	**1,870**
Dispsal of non-controlling interests	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**3,795**	**3,795**
Share-based payments	**–**	**–**	**12,258**	**–**	**–**	**–**	**–**	**–**	**12,258**	**–**	**12,258**
Share subscription under placing	**7,950**	**125,610**	**–**	**–**	**–**	**–**	**–**	**–**	**133,560**	**–**	**133,560**
Less: Share issue expenses	**–**	**(1,466)**	**–**	**–**	**–**	**–**	**–**	**–**	**(1,466)**	**–**	**(1,466)**
Repurchase of shares	**(52)**	**(822)**	**–**	**–**	**–**	**–**	**–**	**–**	**(874)**	**–**	**(874)**
Changes in equity for the year	**7,898**	**123,322**	**12,258**	**–**	**–**	**(2,432)**	**1,963**	**(64,250)**	**78,759**	**(1,227)**	**77,532**
At 31 December 2018	**93,535**	**443,140**	**12,258**	**212,948**	**4,163**	**(10,402)**	**650**	**(432,215)**	**324,077**	**(5,162)**	**318,915**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. GENERAL INFORMATION

The Company was incorporated registered as an exempted company in Cayman Islands under the Company Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands on 5 June 2003. On 29 August 2013, the Company deregistered in the Cayman Islands and duly continued in Bermuda as an exempted company under the laws of Bermuda. The address of its registered office is Clarendon House, 2 Church Street, Hamilton HM 11, Bermuda. The address of its principal place of business in Hong Kong is Suites 1904-05A, 19/F, Sino Plaza, 255-257 Gloucester Road, Causeway Bay, Hong Kong. The Company's shares are listed on GEM of the Stock Exchange.

The Company is an investment holding company. The principal activities of its subsidiaries are (i) manufacture, research and development, sale and distribution of health related and pharmaceutical products in the People's Republic of China (the "**PRC**") and Hong Kong; (ii) provision of medical laboratory testing services and health check services in Hong Kong; and (iii) trading of securities in Hong Kong.

In the opinion of the directors of the Company, Genius Lead Limited, a company incorporated in Samoa with limited liability, is the immediate holding company, Genius Earn Limited, a company incorporated in the British Virgin Islands with limited liability, is the ultimate holding company and Mr. Liu Xiaolin ("**Mr. Liu**") is the ultimate controlling party of the Company.

2. BASIS OF PREPARATION

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

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

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

(a) Application of new and revised HKFRSs

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

(i) HKFRS 9 Financial Instruments; and

(ii) HKFRS 15 Revenue from Contracts with Customers

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

HKFRS 9 Financial instruments

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

The Group has applied HKFRS 9 in accordance with the transition provisions set out in HKFRS 9, i.e. applied the classification and measurement requirements retrospectively to instruments that have not been derecognised as at 1 January 2018 (date of initial application) and has not applied the requirements to instruments that have already been derecognised as at 1 January 2018. The difference between carrying amounts as at 31 December 2017 and the carrying amounts as at 1 January 2018 are recognised in the opening retained profits and other components of equity, without restating comparative information.

Accordingly, certain comparative information may not be comparable as comparative information was prepared under HKAS 39 Financial Instruments: Recognition and Measurement.

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

(a) Classification

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

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

- those to be measured at amortised cost.

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

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

(b) *Measurement*

The Group reclassifies debt investments when and only when its business model for managing those assets changes.

At initial recognition, the Group measures a financial assets at its fair value plus, in the case of a financial assets not at FVTPL, transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVTPL are expensed in profit or loss.

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

Subsequent measurement of debt instruments depends on the Group's business model for managing the asset and the cash flow characteristics of the asset. There are three measurement categories into which the Group classifies its debt instruments:

– Amortised cost: Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. Interest income from these financial assets is included in other income using the effective interest rate method. Any gain or loss arising on derecognition is recognised directly in profit or loss and presented in other gains/(losses), together with foreign exchange gains and losses. Impairment losses are presented as separate line item in the statement of profit or loss.

– FVTOCI: Assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are measured at FVTOCI. Movements in the carrying amount are taken through other comprehensive income, except for the recognition of impairment gains or losses, interest revenue and foreign exchange gains and losses which are recognised in profit or loss. When the financial asset is derecognised, the cumulative gain or loss previously recognised in other comprehensive income is reclassified from equity to profit or loss and recognsied in other gains/(losses). Interest income from these financial assets is included in other income using the effective interest rate method. Foreign exchange gains and losses are presented in other gains/(losses) and impairment losses are presented as separate line item in the statement of profit or loss.

– FVTPL: Assets that do not meet the criteria for amortised cost or FVTOCI are measured at FVTPL. A gain or loss on a debt investment that is subsequently measured at FVTPL is recognsied in profit or loss and presented net within other gains/(losses) in the period in which it arises.

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

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

(c) *Impairment*

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

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

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

The following table summaries the impact on the Group's opening retained earnings as at 1 January 2018:

	Note	*HK$'000*
Increase in impairment losses for:		
– Loan and interest receivables	(a)	70
– Trade receivables	(b)	1,885
Adjustment to retained earnings from adoption of HKFRS 9 on 1 January 2018		1,955
Attributable to:		
owners of the Company		1,386
non-controlling interest		569
		1,955

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

Financial assets	*Note*	**Classification under HKAS 39**	**Classification under HKFRS 9**	**Carrying amount under HKAS 39**	**Remeasurement amount under HKFRS 9**	**Carrying amount under HKFRS 9**
				HK$'000	*HK$'000*	*HK$'000*
Loan and interest receivables	(a)	Loan and receivables	Amortised cost	15,017	(70)	14,947
Trade and other receivables	(b)	Loan and receivables	Amortised cost	83,945	(1,885)	82,060
Equity investments	(c)	Available-for- sale financial assets	Financial assets at FVTOCI	21,612	(7,970)	13,642
Equity investments	(d)	Held for trading securities	Financial assets at FVTPL	2,966	–	2,966

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

	Note	**Effect on FVTOCI reserve**
		HK$'000
Opening balance – HKAS 39		–
Fair value change on financial assets at FVTOCI	(c)	7,970
Total impact		7,970
Opening balance – HKFRS 9		7,970

The effect on retained earnings is before adjustment for impairment (see below).

The Group did not designate or de-recognise any financial assets or financial liabilities at FVTPL at 1 January 2018.

For assets in scope of the HKFRS 9 impairment model, impairment losses are generally expected to increase and become more volatile. The Group has determined that the application of HKFRS 9 impairment model requirements at 1 January 2018 results in an additional impairment allowance as follows:

	Note	**Trade receivables** *HK$'000*	**Loan and interest receivables** *HK$'000*
Impairment allowance at 31 December 2017 under HKAS 39		7,580	–
Additional impairment recognised at 1 January 2018 on:			
– Loan and interest receivables	(a)	–	70
– Trade receivables	(b)	1,885	–
Impairment allowance at 1 January 2018 under HKFRS 9		9,465	70

Note:

(a) Loan and interest receivables that were previously classified as loan and receivables are now classified as financial assets at amortised cost. The Group intends to hold the assets to maturity to collect contractual cash flows and these cash flows consist solely of payments of principal and interest on the principal amount outstanding. An increase of HK$70,000 in the allowance for impairment was recognised in opening retaining earnings at 1 January 2018 on transition to HKFRS 9.

(b) Trade and other receivables that were classified as loan and receivables under HKAS 39 are now classified at amortised cost. An increase of HK$1,885,000 in the allowance for impairment of the trade receivables was recognised in opening retained earnings at 1 January 2018 on transition to HKFRS 9.

(c) These equity investments represent investments that the Group intends to hold for the long term for strategic purposes. Under HKAS 39 they were classified as available-for-sale financial assets and measured at cost less impairment loss. The Group elected to present in other comprehensive income changes in the fair value of these investments because these investments are held as long-term strategic investments that are not expected to be sold in the short to medium term. As a result, assets with a fair value of approximately HK$21,612,000 were reclassified from available-for-sale financial assets to financial assets at FVTOCI and fair value loss of approximately HK$7,970,000 were recognised to the financial assets at FVTOCI reserve on 1 January 2018. Unlike HKAS 39, the accumulated fair value reserve related to these investments will never be reclassified to profit or loss.

(d) Equity securities held for trading securities are required to be held as financial assets at FVTPL under HKFRS 9. There was no impact on the amounts recognised in relation to these assets from the adoption of HKFRS 9.

Impairment losses related to trade and other receivables are presented separately in the statement of profit or loss. As a result, the Group reclassified impairment losses amounting to HK$2,732,000, recognised under HKAS 39, from "administrative expenses" to "impairment loss on trade and other receivables" in the statement of profit or loss for the year ended 31 December 2017.

HKFRS 15 Revenue from contracts with customers

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

The Group has applied HKFRS 15 retrospectively with the cumulative effect of initially applying this standard recognised at the date of initial application, 1 January 2018. Any difference at the date of initial application is recognised in the opening retained profits (or other components of equity, as appropriate) and comparative information has not been restated. Furthermore, in accordance with the transition provisions in HKFRS 15, the Group has elected to apply the standard retrospectively only to contracts that are not completed at 1 January 2018. Accordingly, certain comparative information may not be comparable as comparative information was prepared under HKAS 18 Revenue and HKAS 11 Construction Contracts and the related interpretations.

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

Revenue from the sales of health related and pharmaceutical products is recognised when control of the products has transferred, being when the products are delivered to the customers, 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 specific location. A receivable is recognised when the goods are delivered 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.

Revenue from medical laboratory testing services and health check services is recognised at a point of time when the test services and health check services are completed.

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

The adoption of HKFRS 15 does not have a significant impact on the consolidated financial statements.

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

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

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

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

HKFRS 16 Leases

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

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

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

As disclosed in page 39 of this announcement, the Group's future minimum lease payments under non-cancellable operating leases for its office properties and warehouse amounted to approximately HK$10,279,000 as at 31 December 2018. These leases are expected to be recognised as lease liabilities, with corresponding right-of-use assets, once HKFRS 16 is adopted. The amounts will be adjusted for the effects of discounting and the transition reliefs available to the Group.

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

HK(IFRIC) 23 Uncertainty over Income Tax Treatments

The interpretation of HKAS 12 Income Taxes sets out how to apply that standard when there is uncertainty about income tax treatments. Entities are required to determine whether uncertain tax treatments should be assessed separately or as a group depending on which approach will better predict the resolution of the uncertainties. Entities will have to assess whether it is probable that a tax authority will accept an uncertain tax treatment. If yes, the accounting treatment will be consistent with the entity's income tax filings. If not, however, entities are required to account for the effects of the uncertainty using either the most likely outcome or expected value method depending on which method is expected to better predict its resolution.

The Group is unable to estimate the impact of the interpretation on the consolidated financial statements until a more detailed assessment has been completed.

4. REVENUE

Disaggregation of revenue from contracts with customers by major products or services line for the year is as follow:

	2018	2017
	HK$'000	*HK$'000*
Revenue from contracts with customers within the scope of HKFRS 15:		
Manufacture and sale of health related and pharmaceutical products	**9,732**	43,720
Provision of medical laboratory testing services and health check services	**58,968**	61,379
Money lending business	**1,604**	16
Provision of research and development services	**–**	20
	70,304	105,135
Gross proceeds from trading of securities *(note)*	**–**	111,715
Gross proceeds	**70,304**	216,850

Note:

The gross proceeds from trading of securities were recorded in "net loss on financial assets at fair value through profit or loss" after setting off the relevant cost.

The Group derives revenue from the transfer of goods and services at a point in time in the following major product lines and geographical regions:

For the year ended 31 December	Manufacture and sale of health related and pharmaceutical products		Provision of medical laboratory testing services and health check services		Securities		Money lending business		Provision of research and development services		Total	
	2018	2017	**2018**	2017	**2018**	2017	**2018**	2017	**2018**	2017	**2018**	2017
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Primary geographical markets												
– Hong Kong	**1,166**	6,440	**58,968**	61,379	**–**	111,715	**1,604**	16	**–**	–	**61,738**	179,550
– PRC except Hong Kong	**8,566**	8,264	**–**	–	**–**	–	**–**	–	**–**	20	**8,566**	8,284
– Malaysia	**–**	10,467	**–**	–	**–**	–	**–**	–	**–**	–	**–**	10,467
– Singapore	**–**	13,515	**–**	–	**–**	–	**–**	–	**–**	–	**–**	13,515
– Germany	**–**	4,657	**–**	–	**–**	–	**–**	–	**–**	–	**–**	4,657
– India	**–**	377	**–**	–	**–**	–	**–**	–	**–**	–	**–**	377
Segment revenue	**9,732**	43,720	**58,968**	61,379	**–**	111,715	**1,604**	16	**–**	20	**70,304**	216,850
Timing of revenue recognition												
Products transferred at a point in time	**9,732**	43,720	**58,968**	61,379	**–**	111,715	**1,604**	16	**–**	20	**70,304**	216,850

The Group has initially applied HKFRS 15 using the cumulative effect method. Under this method, the comparative information is not restated and was prepared in accordance with HKAS 18 and HKAS 11.

5. OTHER INCOME, GAINS/(LOSSES)

	2018	2017
	HK$'000	*HK$'000*
Interest income	**20**	144
Government grants *(note)*	**553**	104
Gain on disposal of property, plant and equipment	**1,735**	74
Net foreign exchange gain/(loss)	**22**	(9)
Loss on written off on property, plant and equipment	**(72)**	–
Others	**172**	354
	2,430	667

Note:

During the year ended 31 December 2018, a special government funding of approximately RMB466,000 (equivalent to approximately HK$553,000) (2017: RMB90,000 or equivalent to approximately HK$104,000) received by a subsidiary of the Company in the PRC for research and development.

6. SEGMENT INFORMATION

The Group has four operating segments as follows:

Pharmaceutical products	–	manufacture, research and development, sale and distribution of health related and pharmaceutical products
Medical and health related services	–	provision of medical laboratory testing services and health check services
Securities	–	trading of securities
Others	–	provision of research and development services, money lending business

The Group's reportable segments are strategic business units that offer different products and services. They are managed separately because each business requires different technology and marketing strategies.

The Group's other operating segments include provision of research and development services and money lending business. None of these segments meets any of the quantitative thresholds for determining reportable segments. The information of these other operating segments is included in the 'others' column.

Segment profits or losses do not include other income, other gains and losses, unallocated administrative expenses, share of (loss)/profits of associates, gain on disposal of subsidiaries, finance costs and income tax expense. Segment assets do not include the unallocated bank and cash balances, interests in associates, current and deferred tax assets. Segment liabilities do not include borrowings, current and deferred tax liabilities. Segment non-current assets do not include financial instruments, deferred tax assets and post-employment benefit assets.

The Group accounts for intersegment sales and transfers as if the sales or transfers were to third parties, i.e. at current market prices.

Information about operating segment profit or loss, assets and liabilities:

	Pharmaceutical products *HK$'000*	Medical and health related services *HK$'000*	Securities *HK$'000*	Others *HK$'000*	Total *HK$'000*
Year ended 31 December 2018					
Revenue from external customers *(note)*	**9,732**	**58,968**	**–**	**1,604**	**70,304**
Segment (loss)/profit	**(8,128)**	**(5,436)**	**(7,881)**	**889**	**(20,556)**
Other income, gain/(loss)					**2,430**
Finance costs					**(3,472)**
Share of loss of associates					**(460)**
Gain on disposal of a subsidiary					**4,249**
Unallocated corporate expenses					**(51,435)**
Loss before tax					**(69,244)**
Income tax expense					**(189)**
Loss for the year					**(69,433)**
As at 31 December 2018					
Segment assets	**1,380**	**82,091**	**12,469**	**26,104**	**122,044**
Unallocated corporate assets					**215,717**
Total assets					**337,761**
Segment liabilities	**120**	**10,974**	**2,281**	**516**	**13,891**
Unallocated corporate liabilities					**4,955**
Total liabilities					**18,846**

	Pharmaceutical products *HK$'000*	Medical and health related services *HK$'000*	Securities *HK$'000*	Others *HK$'000*	Total *HK$'000*
Year ended 31 December 2017					
Revenue from external customers *(note)*	43,720	61,379	111,715	36	216,850
Segment loss	(27,956)	(475)	(37,346)	(804)	(66,581)
Other income, gain/(loss)					667
Finance costs					(2,189)
Share of profits of associates					6,642
Loss on disposal of assets held for sales					(493)
Gain on disposal of associates					8,066
Gain on disposal of subsidiaries					2,473
Unallocated corporate expenses					(23,983)
Loss before tax					(75,398)
Income tax expense					(1,132)
Loss for the year					(76,530)
As at 31 December 2017					
Segment assets	35,732	88,406	33,674	17,038	174,850
Unallocated corporate assets					128,550
Total assets					303,400
Segment liabilities	10,956	12,794	95	104	23,949
Unallocated corporate liabilities					28,143
Total liabilities					52,092

Note:

Reconciliation of total segment revenue to the Group's revenue:

	2018	2017
	HK$'000	*HK$'000*
Gross proceeds	**70,304**	216,850
Less: Gross proceeds from trading of securities	**–**	(111,715)
Revenue	**70,304**	105,135

Other segment information

Other segment information for the year ended 31 December 2018:

	Pharmaceutical products	**Medical and health related services**	**Securities**	**Others**	**Total**
	HK$'000	***HK$'000***	***HK$'000***	***HK$'000***	***HK$'000***
Capital expenditures	**2,792**	**1,523**	**30**	**2,151**	**6,496**
Amortisation of prepaid land lease payments	**239**	**–**	**–**	**–**	**239**
Amortisation of intangible assets	**–**	**1,225**	**–**	**–**	**1,225**
Depreciation of property, plant and equipment	**1,419**	**3,922**	**16**	**1,664**	**7,021**
Write-down of property, plant and equipment	**–**	**72**	**–**	**–**	**72**
Gain on disposal of property, plant and equipment	**–**	**–**	**–**	**(1,735)**	**(1,735)**
Share of loss of associates	**–**	**–**	**–**	**460**	**460**
Allowance for impairment loss on financial assets, net	**136**	**52**	**–**	**3,536**	**3,724**
(Reversal of write-down)/write-down of inventories	**(293)**	**111**	**–**	**–**	**(182)**

Other segment information for the year ended 31 December 2017

	Pharmaceutical products *HK$'000*	Medical and health related services *HK$'000*	Securities *HK$'000*	Others *HK$'000*	Total *HK$'000*
Capital expenditures	2,162	1,042	15	1,851	5,070
Amortisation of prepaid land lease payments	232	–	–	–	232
Amortisation of intangible assets	–	1,225	–	–	1,225
Depreciation of property, plant and equipment	1,060	4,086	4	664	5,814
Gain on disposal of property, plant and equipment	–	–	–	(74)	(74)
Share of profit of associates	–	–	–	(6,642)	(6,642)
Impairment loss on goodwill	1,478	–	–	–	1,478
Impairment loss on intangible assets	11,085	–	–	–	11,085
Allowance of doubtful debts	2,732	–	–	–	2,732
Impairment loss on available-for-sale financial assets	–	–	–	4,049	4,049
Write-down of inventories	894	297	–	–	1,191

Geographical information

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

	Revenue		**Non-current assets**	
	2018	2017	**2018**	2017
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Hong Kong	**61,738**	67,835	**65,209**	71,616
PRC except Hong Kong	**8,566**	8,284	**6,273**	28,197
Malaysia	**–**	10,467	**–**	–
Singapore	**–**	13,515	**–**	–
Germany	**–**	4,657	**–**	–
India	**–**	377	**–**	–
	70,304	105,135	**71,482**	99,813

Revenue from major customers:

Revenue from customers contributing over 10% of the total revenue of the Group is as follows:

	2018	2017
	HK$'000	*HK$'000*
Manufacture and sale of health related and pharmaceutical products segment		
Customer A	**NA[1]**	13,515
Provision of medical and health related services segment		
Customer B	**14,100**	13,612

[1] The revenue contributed from customer A was not over 10% for the year ended 31 December 2018.

7. FINANCE COSTS

	2018	2017
	HK$'000	*HK$'000*
Interest on bank borrowing	**63**	105
Interest on other borrowings	**3,298**	2,539
Imputed interest on loan from a non-controlling shareholder of a subsidiary	**111**	99
Total borrowing costs	**3,472**	2,743
Amount capitalised	**–**	(554)
	3,472	2,189

The weighted average capitalisation rate on funds borrowed is at a rate of 1% per month for 2017.

8. INCOME TAX EXPENSE

Income tax has been recognised in profit or loss as following:

	2018	2017
	HK$'000	*HK$'000*
Current tax		
Hong Kong Profits Tax	**501**	1,321
Over-provision in prior years	**(120)**	(1)
	381	1,320
Deferred tax	**(192)**	(188)
	189	1,132

Hong Kong Profits Tax has been provided at a rate of 16.5% (2017: 16.5%) on the estimated assessable profits arising in Hong Kong for the year ended 31 December 2018.

On 21 March 2018, the Inland Revenue (Amendment) (No. 7) Bill 2017, which introduces a two-tiered profits tax regime, was substantively enacted. Under the two-tiered profits tax regime, the first HK$2 million of assessable profits of qualifying corporations will be taxed at 8.25% with effect from the year assessment 2018/2019. Profits above HK$2 million will continue to be subject to the tax rate of 16.5%.

PRC Enterprise Income Tax has been provided at a rate of 25% (2017: 25%).

Tax charge on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates, based on existing legislation, interpretation and practices in respect thereof.

9. LOSS FOR THE YEAR

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

	2018	2017
	HK$'000	*HK$'000*
Amortisation of intangible assets	**1,225**	1,225
Amortisation of prepaid land lease payments	**239**	232
Depreciation of property, plant and equipment	**7,021**	5,814
Gain on disposal of property, plant and equipment	**(1,735)**	(74)
Operating lease charges		
– Office premises and warehouses	**8,025**	5,888
Staff costs		
– Salaries, bonuses and allowances	**45,741**	36,595
– Equity-settled share-based payments	**4,845**	–
– Retirement benefits scheme contributions	**1,737**	1,723
	52,323	38,318
Auditor's remuneration	**880**	750
Cost of inventories sold	**16,657**	48,769
(Reversal of write-down)/write-down on inventories (included in cost of sales)	**(182)**	1,191
Allowance for impairment loss on financial assets, net	**3,724**	2,732
Impairment loss on goodwill	**–**	1,478
Impairment loss on available-for-sale financial assets	**–**	4,049
Impairment loss on intangible assets	**–**	11,085
Written off on property, plant and equipment	**72**	–

10. DIVIDENDS

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

11. LOSS PER SHARE

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

	2018	2017
	HK$'000	*HK$'000*
Loss		
Loss for the year for the purpose of calculating basic and diluted loss per share	**(64,250)**	(63,022)

	2018	2017
	'000	*'000*
Number of shares		
Weighted average number of ordinary shares for the purpose of calculating basic and diluted loss per share	**881,719**	801,222

The weighted average numbers of ordinary shares used as denominators in calculating the basic and diluted loss per share are the same.

The effect of all potential ordinary shares are anti-dilutive for the year ended 31 December 2018 due to loss making for the year ended 31 December 2018.

The computation of the diluted loss per share does not assume the exercise of the Company's outstanding share options.

12. FINANCIAL ASSETS AT FVTOCI (2017: AVAILABLE-FOR-SALE FINANCIAL ASSETS)

	2018	2017
	HK$'000	*HK$'000*
Unlisted equity securities, at cost	**–**	28,856
Unlisted equity securities at fair value	**48,297**	–
Less: Impairment loss	**–**	(7,244)
	48,297	21,612
Analysed as:		
Current assets	**–**	–
Non-current assets	**48,297**	21,612
	48,297	21,612

Financial assets at FVTOCI (2017: Available-for-sale financial assets) are denominated in the following currencies:

	2018	2017
	HK$'000	*HK$'000*
HK$	**8,990**	21,612
US$	**39,307**	–
	48,297	21,612

13. TRADE AND OTHER RECEIVABLES

	2018	2017
	HK$'000	*HK$'000*
Trade receivables	**14,459**	26,828
Allowance for doubtful debts	**(823)**	(7,580)
	13,636	19,248
Rental and other deposits	**4,293**	4,026
Other receivables	**1,395**	4,117
Prepayments	**4,526**	6,541
Sales proceeds on disposal of associates	**3,347**	20,000
Cash held in securities trading accounts with stock brokers	**9,135**	30,013
Allowance for doubtful debts of other receivables	**(3,502)**	–
	19,194	64,697
Total trade and other receivables	**32,830**	83,945

The Group generally allows an average credit period of 90 days (2017: 90 days) for its pharmaceutical products customers and its laboratory testing and health check services customers. Each customer has a maximum credit limit. For new customers, payment in advance is normally required. The Group seeks to maintain strict control over its outstanding receivables. Overdue balances are reviewed regularly by the directors.

The aging analysis of trade receivables based on the invoice date, and net of allowance, is as follows:

	2018	2017
	HK$'000	*HK$'000*
0 to 90 days	**11,655**	13,202
91 to 180 days	**1,102**	2,161
181 to 365 days	**834**	2,191
Over 365 days	**45**	1,694
	13,636	19,248

As at 31 December 2018, an aggregate allowance was made for estimated irrecoverable trade receivables of approximately HK$823,000 (2017: HK$7,580,000).

Reconciliation of allowance for impairment loss:

	2018	2017
	HK$'000	*HK$'000*
At 1 January	**7,580**	4,711
Effect of adoption of HKFRS 9	**1,885**	–
At 1 January under HKFRS 9 (restated)	**9,465**	4,711
Allowance for the year	**188**	2,732
Amounts written off	**–**	(301)
Disposal of a subsidiary	**(8,387)**	–
Exchange differences	**(443)**	438
At 31 December	**823**	7,580

As of 31 December 2018, trade receivables of approximately HK$1,981,000 (2017: HK$6,046,000) were past due but not impaired. These relate to a number of independent customers for whom there is no recent history of default. The ageing analysis of these trade receivables past due but not impaired is as follows:

	2018	2017
	HK$'000	*HK$'000*
Less than 90 days	**1,102**	2,161
91 to 275 days	**834**	2,191
Over 275 days	**45**	1,694
	1,981	6,046

The carrying amounts of the Group's trade receivables are denominated in the following currencies:

	2018	2017
	HK$'000	*HK$'000*
HK$	**13,636**	16,357
RMB	**–**	2,891
Total	**13,636**	19,248

14. TRADE AND OTHER PAYABLES

	2018	2017
	HK$'000	*HK$'000*
Trade payables	**2,151**	5,057
Accruals	**8,903**	4,469
Receipt in advance	**108**	84
Other payables	**1,389**	8,834
	12,551	18,444

The aging analysis of trade payables based on the date of invoice date, is as follows:

	2018	2017
	HK$'000	*HK$'000*
0 to 90 days	**2,142**	2,186
91 to 180 days	**–**	23
181 to 365 days	**9**	75
Over 365 days	**–**	2,773
	2,151	5,057

The carrying amounts of the Group's trade payables are denominated in the following currencies:

	2018	2017
	HK$'000	*HK$'000*
HK$	**2,151**	2,079
RMB	**–**	2,978
Total	**2,151**	5,057

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

During the year ended 31 December 2018 (the "**2018 Year**"), the principal activities of the Group are (i) manufacture, research and development, sale and distribution of health related and pharmaceutical products in the PRC and Hong Kong, (ii) provision of medical laboratory testing services and health check services in Hong Kong, and (iii) trading of securities in Hong Kong.

Turnover

During the 2018 Year, the Group recorded a turnover of approximately HK$70,304,000, representing a decrease of approximately 33.13% as compared with that of approximately HK$105,135,000 for the year ended 31 December 2017 (the "**2017 Year**"). The overall decrease in the turnover was mainly resulted from absence of trading of pharmaceutical intermediates to overseas which contributed to approximately HK$33,708,000 for the 2017 Year.

Manufacture and sale of health related and pharmaceutical products

Manufacture and sale of health related and pharmaceutical products segment recorded a significant decrease during the 2018 Year. The turnover of this segment decreased from approximately HK$43,720,000 for the 2017 Year to approximately HK$9,732,000 for the 2018 Year mainly resulted from absence of trading of pharmaceutical intermediates to overseas which contributed to approximately HK$33,708,000 for the 2017 Year. Also, the sales performance of the healthcare and skincare products business of the Group in Hong Kong has been affected significantly by the keen competition in healthcare and skincare product market. Further, the competition of traditional Chinese medicine pharmaceutical market in the PRC has increased, especially because the new development in the field of biological medicine has eroded the market share of both Chinese herbal medicine and chemical medicine. In addition, the result of the tenders of new rebranded products in the PRC is unsatisfactory.

Provision of medical laboratory testing services and health check services

The Group had offered a wide spectrum of quality health check diagnostic services in Hong Kong through four health check centers, one medical testing central laboratory and one molecular laboratory. During the 2018 Year, the turnover of this segment has decreased slightly from approximately HK$61,379,000 for the 2017 Year to approximately HK$58,968,000 for the 2018 Year, due to the keen competition in the medical laboratory testing services and health check services industry in light of the market saturation and the constant increase in number of new entrants in the industry.

Money lending business

Ferran Finance Limited, an indirect wholly-owned subsidiary of the Company, is a holder of money lenders licence under the Money Lenders Ordinance (Chapter 163 of the Laws of Hong Kong). With the increasing market demands of the micro-financing business in Hong Kong, the Group has utilised HK$22.7 million for the money lending business. The Group's loan portfolio comprises unsecured loans granted to individual customers and corporation with guarantee; the loan receivables carry an interest rate at 8% per annum and are repayable within one year. The money lending business recorded an interest income of approximately HK$1,604,000 for the 2018 Year (2017 Year: HK$16,000).

Trading of financial assets at fair value through profit or loss ("FVTPL")

The Group's investment portfolio comprises investments in listed securities in Hong Kong. This business segment recorded a net loss on financial assets at FVTPL of approximately HK$397,000 during the 2018 Year as less trading activities occurred (2017 Year: net loss of approximately HK$32,671,000 comprising (i) the net unrealised loss on fair value changes of approximately HK$10,486,000 and (ii) the net realised loss of approximately HK$22,185,000).

The performance of equity investments is subject to certain degree of volatility in the Hong Kong stock market and is susceptible to other external factors. It has been the policy of the Company to closely monitor the performance of its securities investment and to diversify the investment portfolio with a view to mitigating possible financial risks related to the equity investments.

Gross profit and gross profit margin

The Group recorded a slight decrease in the gross profit for the 2018 Year of approximately HK$28,084,000 when compared with that of approximately HK$30,202,000 in the 2017 Year. However, the gross profit margin for the 2018 Year was approximately 39.95%, representing a significant increase by approximately 11.22 percentage points when compared with the gross profit margin of approximately 28.73% for the 2017 Year. The increase in gross profit margin was attributable to the cessation of trading of pharmaceutical intermediates business which commanded a thinner gross profit margin for the 2017 Year.

Selling and distribution expenses

Selling and distribution expenses for the 2018 Year were approximately HK$16,966,000 (2017 Year: HK$16,807,000), representing a slight increase of approximately HK$159,000 or 0.95% compared with such expenses for the 2017 Year. Such increase was mainly attributable to the increase in rental expenses in relation to medical laboratory testing services and health check services. However, the increase is partially offset by the decrease in staff costs as prevalent in the healthcare and skincare product market in Hong Kong.

Administrative expenses

The administrative expenses mainly consisted of staff cost, share-based payment, legal and professional fee and rental expenses. The administrative expenses for the 2018 Year were approximately HK$78,988,000, representing a significant increase of approximately HK$27,044,000 or 52.06%, as compared with that of approximately HK$51,944,000 for the 2017 Year, which was mainly due to (i) amortisation of equity-settled share-based payment of approximately HK$12,258,000 (2017 Year: HK$Nil); (ii) staff costs amounting to approximately HK$27,424,000 which has increased when compared to that of the 2017 Year (2017 Year: HK$17,136,000); and (iii) rental expenses amounting to approximately HK$3,751,000 which has increased when compared to that of the 2017 Year (2017 Year: HK$2,505,000).

Finance costs

During the 2018 Year, the Group's interest expenses (including capitalised interest) amounted to approximately HK$3,472,000 (2017 Year: HK$2,743,000). The increase in finance costs (including capitalised interest) was attributable to other short term borrowings as the working capital of 貴州雙升製藥有限公司(in English, for identification purpose only, Guizhou Shuang Sheng Pharmaceutical Co., Ltd.), a subsidiary which was disposed of during the 2018 Year, which resulted in a higher average borrowing level.

Loss for the year

The Group recorded a loss of approximately HK$69,433,000 for the 2018 Year (2017 Year: HK$76,530,000). The net loss for the 2018 Year was mainly attributable to (i) amortisation of equity-settled share-based payment of approximately HK$12,258,000 in relation to the granting of share options (as opposed to the absence of such amortisation for the 2017 Year); (ii) increase in administrative expenses (excluding amortisation of equity-settled share-based payment) of approximately HK$14,786,000, which is partially set-off by decrease in loss on fair value change of financial assets at FVTPL of approximately HK$397,000 (2017 Year: HK$32,671,000); and (iii) no impairment loss of goodwill and intangible assets for the 2018 Year (2017 Year: HK$12,563,000).

BUSINESS REVIEW

Disposal of subsidiaries

Having taken into consideration that the performance of Bloom Light International Limited and its subsidiaries (collectively, the "**Bloom Light Group**") for the past financial years was not satisfactory, the Directors considered that the disposal of the Bloom Light Group would enable the Company to free up the resources devoted to this business and redirect the resources to the Group's other existing business which might have higher growth potential to maximise the benefit of the shareholders of the Company. The completion of the disposal of the Bloom Light Group took place on 31 December 2018. For details, please refer to the announcement of the Company dated 30 November 2018.

Memorandum of understanding in relation to possible acquisition of 34.33% equity interest in Sinobioway Cell

On 5 January 2018, China Biology Services Group Limited ("**China Biology**"), a company incorporated in Hong Kong with limited liability and an indirect wholly-owned subsidiary of the Company, entered into a non-legally binding memorandum of understanding (the "**MOU**") with 安徽未名生物醫藥有限公司 (the "**Vendor**") in relation to the possible acquisition of 34.33% equity interest in 安徽未名細胞治療有限公司, a company incorporated in the PRC with limited liability. No legally binding agreement has been entered into by China Biology and the Vendor in respect of the said possible acquisition and the exclusivity period ended on 5 April 2018. On 6 August 2018, China Biology and the Vendor entered into a termination agreement in relation to the MOU. Details were disclosed in the announcements of the Company dated 5 January 2018, 6 April 2018 and 6 August 2018.

Grant of share options

On 12 January 2018, the Company has granted to eligible participants certain options to subscribe for up to a total of 27,380,000 ordinary shares of nominal value of HK$0.10 each in the share capital of the Company. Details were disclosed in the announcement of the Company dated 12 January 2018.

On 4 October 2018, the Company has granted to an eligible participant who is a director of a subsidiary of the Company options to subscribe for up to a total of 3,000,000 ordinary shares of nominal value of HK$0.10 each in the share capital of the Company. Details were disclosed in the announcement of the Company dated 4 October 2018.

Disposal of 8% of equity interest in a securities company

On 24 January 2018, Keyun Limited, an indirect wholly-owned subsidiary of the Company, entered into a sale and purchase agreement with an independent third party to dispose of 8% of equity interest in a securities company with a cash consideration of HK$2,500,000. No gain or loss in respect of the disposal was recorded during the 2018 Year. The completion of disposal took place on the same date.

Subscription of approximately 2.27% of the issued share capital of Broncus Holding Corporation

On 17 April 2018, Gain Yield Holdings Limited ("**Gain Yield**"), a wholly-owned subsidiary of the Company, and Broncus Holding Corporation ("**Broncus**") entered into a share subscription agreement, pursuant to which, Broncus agreed to issue and allot, and Gain Yield agreed to subscribe for, the subscription shares, being 1,641,794 series B preferred shares in Broncus at the consideration of US$5,000,001.54 (equivalent to approximately HK$39,282,000). The subscription shares represent approximately 2.27% of the total issued share capital of Broncus (as enlarged by the issue of the subscription shares but before the issue of any other series B preferred shares by Broncus) as at the date of completion. Broncus and its subsidiaries are mainly engaged in the development and manufacturing of navigation, diagnostic and therapeutic technologies to treat patients with lung disease. The completion of subscription took place on 19 April 2018. Details were disclosed in the announcement of the Company dated 17 April 2018.

Acquisition of approximately 67% of equity interest in Shanghai Longyao Biotech Company Limited ("Shanghai Longyao") involving issue of consideration shares under the general mandate and Issue of new Subscription shares under the general mandate

On 22 July 2018, the Company and China Biology entered into a master agreement (the "**Master Agreement**") and a sale and purchase agreement (the "**HK SPA**") relating to the sale and purchase of all issued shares ("**BVI Sale Share**") of a company incorporated in the British Virgin Islands ("**BVI Company**") and all amounts which the BVI Company owe to its shareholder as at completion ("**BVI Sale Debt**") by China Biology whereby China Biology will indirectly acquire the registered capital of Shanghai Longyao in the sum of RMB3,750,148 (the "**HK Share Transfer**") and China Biology entered into an agreement ("**the PRC Capital Increase and Equity Transfer Agreement**") in respect of, among others, the capital contribution of RMB40,000,000 to Shanghai Longyao by the Group (the "**PRC Capital Increase**") and the purchase of registered capital of Shanghai Longyao in the total sum of RMB3,162,332 by the Group (the "**PRC Equity Transfer**"). Upon completion of both the HK SPA and the PRC Capital Increase and Equity Transfer Agreement, the Company, through China Biology, will directly or indirectly own approximately 67% of the total registered capital in Shanghai Longyao and Shanghai Longyao will become a non-wholly-owned subsidiary of the Company.

On 31 October 2018, the Company and China Biology entered into supplemental agreements to each of the Master Agreement, the PRC Capital Increase and Equity Transfer Agreement and the HK SPA in relation to, among others, extension of the long stop date of the PRC Capital Increase, the PRC Equity Transfer and the HK Share Transfer to 31 January 2019. On 31 January 2019, the Company and China Biology entered into further supplemental agreements to each of the Master Agreement, the PRC Capital Increase and Equity Transfer Agreement and the HK SPA in relation to, among others, further extension of the long stop date of the PRC Equity Transfer and the HK Share Transfer to 31 March 2019 and the adjustment of consideration of the PRC Equity Transfer and the payment mechanism.

The maximum amount of the consideration is approximately RMB225,494,776 (equivalent to approximately HK$261,573,940), among which China Biology has made a capital contribution of RMB40,000,000 (equivalent to approximately HK$46,400,000) to Shanghai Longyao. Further, as part of the consideration in respect of the PRC Equity Transfer and the HK Share Transfer, (i) RMB26,455,114 (equivalent to approximately HK$30,687,932) and RMB1,264,834 (equivalent to approximately HK$1,467,207) will be settled in cash to 深圳市北辰生物技術有限公司 (in English, for identification purpose only, Shenzhen Beichen Biotech Company Limited) and Mr. Ye Shengqin ("**Mr. Ye**") respectively, (ii) RMB10,000,000 (equivalent amount of HK$11,600,000) will be satisfied by the Group by setting off against the aggregate subscription price for 5,800,000 new shares of the Company (the "**Shares**") (being all the subscription shares) in the sum of HK$11,600,000 payable to the Company by Mr. Ye pursuant to the subscription agreement dated 22 July 2018 entered into between the Company and Mr. Ye (as amended and supplemented by the supplemental agreements dated 31 October 2018 and 31 January 2019) and (iii) RMB47,430,000 (equivalent to approximately HK$55,018,800) will be settled by the Company by allotting and issuing the new Shares at the issue price of HK$2.00 per share to Beike International (HK) Limited ("**Beike Biotech Holdings**").

Pursuant to the Master Agreement (as amended and supplemented by the supplemental agreements dated 31 October 2018 and 31 January 2019), subject to fulfillment of certain conditions precedent (including, among others, the completion of the Acquisition), in the event that Shanghai Longyao meets certain performance target ("**First Target Achievement**"), the Company shall allot and issue a total of 29,100,000 new Shares at an issue price of HK$2.00 to Mr. Ye, Beike Biotech Holdings, Mr. Yang Xuanming and Mr. Wang Xin (collectively, the "**Incentive Shares Allottees**"). In the event that Shanghai Longyao meets certain other performance targets ("**Second Target Achievement**"), the Company shall allot and issue another 29,100,000 new Shares to the Incentive Shares Allottees in aggregate. In the event that Shanghai Longyao meets the Second Target Achievement but not the First Target Achievement, the Company shall allot and issue a total of 58,200,000 new Shares to the Incentive Shares Allottees.

On 22 July 2018, the Company and Mr. Ye further entered into a subscription agreement (the "**Subscription Agreement**") in relation to the subscription of 5,800,000 new Shares by Mr. Ye at the subscription price of HK$2.00 per subscription share. On 31 October 2018 and 31 January 2019, the Company and Mr. Ye entered into supplemental agreements to the Subscription Agreement in relation to, among others, extensions of the long stop date to 31 January 2019 and 31 March 2019 respectively.

Details were disclosed in the announcements of the Company dated 22 July 2018, 8 August 2018, 31 October 2018 and 31 January 2019.

Placing of new shares under general mandate and use of net proceeds

On 22 August 2018, the Company and UOB Kay Hian (Hong Kong) Limited ("**UOB**") and China Merchants Securities (HK) Co., Limited ("**CMS**") entered into placing agreement (the "**Placing Agreement**"), pursuant to which UOB and CMS have conditionally agreed to procure, as placing agents of the Company, the placees to subscribe for the Placing Shares (being up to 79,500,000 new Shares) at a price of HK$1.68 per Placing Share (the "**Placing**"), which represented (i) a discount of approximately 13.85% to the closing price of HK$1.95 per share as quoted on the Stock Exchange on the date of the Placing Agreement; and (ii) a discount of approximately 10.64% to the average closing price of HK$1.88 per share as quoted on the Stock Exchange for the five consecutive trading days immediately prior to the date of the Placing Agreement. The net proceeds after deduction of expenses from the Placing were approximately HK$132,000,000, of which (i) approximately HK$93,000,000 would be utilised for funding the acquisition of approximately 67% of equity interest in Shanghai Longyao (details of which are disclosed in the Company's announcements dated 22 July 2018, 8 August 2018, 31 October 2018 and 31 January 2019); and (ii) the remaining balance of approximately HK$39,000,000 would be utilised for potential investments and/or general working capital of the Group. The net issue price was approximately HK$1.6478 per Placing Share and the aggregate nominal value of the Placing Shares under the Placing was HK$7,950,000. The completion of the Placing took place on 6 September 2018, whereby 47,600,000 new ordinary Shares, 30,000,000 new ordinary Shares and 1,900,000 new ordinary Shares were placed to Cheer Hope Holdings Limited, Greater Harmony Limited and Mr. Liao Zhuming respectively. Details of the Placing are disclosed in the announcements of the Company dated 22 August 2018 and 6 September 2018. As at the date of the reporting, the Company has utilised approximately (i) HK$46,276,000 for acquisition of Shanghai Longyao; (ii) HK$19,638,000 for subscription of shares in Pillar Biosciences, Inc. ("**Pillar**"); and (iii) HK$13,664,000 for general working capital of the Group. The Company intends to apply (i) HK$43,755,000 for acquisition of Shanghai Longyao and (ii) the remaining balances of approximately HK$8,667,000 for potential investments and general working capital of the Group. The remaining balances of net proceeds from the Placing is expected to be fully utilised within 12 months from the date of this announcement.

Repurchase of shares

During the Year 2018, the Company repurchased 520,000 Shares at HK$1.68 per share on the Stock Exchange pursuant to the general mandate to buy back the shares of the Company granted by the shareholders of the Company to the Board at the annual general meeting of the Company held on 21 May 2018 (the "**Share Repurchases**"). The Company subsequently cancelled all the repurchased shares on 5 November 2018. Save as disclosed in page 45 of this announcement, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any listed securities of the Company during the 2018 Year.

OUTLOOK

On 18 February 2019, the State Council of the Central Committee of the Communist Party of China published the Outline Development Plan for the Guangdong-Hong Kong-Macao Greater Bay Area as a major development strategy of China and the biopharmaceutical industry, as an area of priority development of the Greater Bay Area, will be supported with priority. The Greater Bay Area is one of the regions with the highest per capita GDP and the most active technology entrepreneurship and capital flow in China, and has an advantage in the development of the healthcare industry. As the integration of the Greater Bay Area accelerates and Hong Kong and the entire Greater Bay Area value the healthcare industry with great importance, the Group will seize the opportunity to promote the development of the Group's main business.

China's economic development will gradually enter a stable development phase and, in 2018, China's GDP annual growth rate also reached a high of 6.6%. The improvement of people's consumption capacity and the stronger emphasis placed on physical health brought about by economic development will continue to vigorously promote the development of the biomedical industry in the next few years, especially the development of regular physical examinations, cancer gene testing, vaccination and preventive medicine. The Group's health check business in Hong Kong will enter the Mainland Chinese market in 2019 to provide customers with professional and reliable experiences and services leveraging on its credibility, high level of management, and good reputation developed over the years.

According to the latest "China Cancer Report" released by the China National Cancer Centre in 2019, China ranked first in the world in terms of cancer incidence rate and mortality rate in 2015, but China's per capita spending on cancer prevention and treatment is currently far behind developed countries such as those in Europe and North America, so there is huge room for growth in this market in the future. According to the latest "Cancer Statistics 2019" published in the United States of America, cancer mortality rates have declined for 25 consecutive years in the United States of America. This is in stark contrast to China's persistently high cancer mortality rates. The causes lie in that China is lagging behind developed countries in Europe and North America in cancer examination and testing method and its cancer treatment methods have yet to be improved.

In January 2019, the Group signed an investment and cooperation agreement with Pillar, a clinical testing company for cancer in the United States of America, to jointly establish a joint venture company in Hong Kong which focuses on genetic testing for cancer patients. It will be based in Hong Kong and serve the surrounding areas of the Greater Bay Area. The Group expects its operation could improve China's cancer examination and testing capabilities.

With respect to cancer treatment, one of the biggest breakthroughs in the field of cancer treatment in recent years is the application of immunotherapy in cancer treatment. CAR-T cell therapy has cured a large number of patients with blood tumour and lymphoma; it also became accepted by the U.S. Centers for Medicare & Medicaid Services for medical insurance claims in early 2019, and before that CAR-T products had already been covered by medical insurance in the United Kingdom. In 2019, the Group will acquire approximately 67% of Shanghai Longyao, which specializes in the research and development of CAR-T and related cancer treatment products and is expected to benefit greatly from the positive developments of immunotherapy.

As for China's encouragement of innovation in biotechnology enterprises, following the Stock Exchange's relaxation of listing conditions in 2018 to attract biotechnology enterprises to apply for listing in Hong Kong, Mainland China specially started a Science and Technology Innovation Board in 2019 to facilitate the listing and financing of technology and innovation enterprises on advantageous conditions so that, in the absence of profits, biopharmaceutical enterprises can apply for admission to the Science and Technology Innovation Board based on the clinical trial progress of their drugs under research. This is undoubtedly a piece of major positive news for enterprises in the business of the research and development of drugs, whose characteristics include high investment and long cycles in its returns. The development trend and policy orientation of China's medical services will create promising development opportunities for the Group to build a biotechnology platform for the future.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

The Group has financed its operations and capital expenditures requirements through (i) internal generated resources, (ii) net proceeds from the placing of new shares under general mandate and (iii) bank and other borrowings.

Liquidity and Financial Resources

As at 31 December 2018, the Group held cash and bank balances of approximately HK$154,479,000 (2017: HK$73,181,000), all were principally denominated in Renminbi and Hong Kong dollars. The increase in cash and bank balances of approximately HK$81,298,000 is mainly due to (i) the net proceeds from the placing of new shares under general mandate of approximately HK$132,000,000 on 6 September 2018 and (ii) proceeds of HK$2,200,000 from disposal of subsidiaries. However, the increase is partially set-off by (i) approximately HK$39,282,000 used for subscription shares of Broncus during the 2018 Year and (ii) approximately HK$7,700,000 for money lending business; and (iii) approximately HK$14,759,000 used for general working capital of the Group.

As at 31 December 2018, the Group had no secured bank borrowing and unsecured other borrowings.

As at 31 December 2017, the Group had secured bank borrowing of approximately HK$4,005,000, which carried a floating interest rate (i.e. HK$ best lending rate offered by the bank minus 2.7%) and was not repayable within one year from the end of the reporting period but contained a repayment on demand clause.

As at 31 December 2017, the Group had unsecured other borrowings of (i) approximately RMB17,900,000 (equivalent to approximately HK$21,460,000), which carried a fixed interest rate of 1% per month and was repayable within one year; and (ii) approximately RMB1,100,000 (equivalent to approximately HK$1,319,000), which carried a fixed interest rate of 12% per annum and was repayable within one year.

The decrease in the bank and other borrowings were mainly due to repayment of bank borrowing and disposal of a subsidiary in Guizhou during the 2018 Year.

As at 31 December 2018, total assets of the Group were approximately HK$337,761,000 (2017: HK$303,400,000), whereas total liabilities were approximately HK$18,846,000 (2017: HK$52,092,000). The gearing ratio of the Group, calculated as total liabilities over total assets, was approximately 5.58% (2017: 17.17%). Current ratio (calculated by total current assets divided by total current liabilities) was 13.76 times (2017: 3.98 times).

Capital Structure

As at 31 December 2018, the total issued share capital of the Company was HK$93,534,675 (2017: HK$85,636,675) divided into 935,346,750 (2017: 856,366,750) ordinary shares of HK$0.10 each.

Placing of new shares under general mandate and use of net proceeds

On 22 August 2018, the Company and UOB and CMS entered into the Placing Agreement, pursuant to which UOB and CMS conditionally agreed to procure, as placing agents of the Company, the placees to subscribe for the Placing Shares (being up to 79,500,000 new Shares) at a price of HK$1.68 per Placing Share, which represented (i) a discount of approximately 13.85% to the closing price of HK$1.95 per share as quoted on the Stock Exchange on the date of the Placing Agreement; and (ii) a discount of approximately 10.64% to the average closing price of HK$1.88 per share as quoted on the Stock Exchange for the five consecutive trading days of the shares immediately prior to the date of the Placing Agreement. The net proceeds after deduction of expenses from the Placing were approximately HK$132,000,000, of which (i) approximately HK$93,000,000 would be utilised for funding the acquisition of approximately 67% of equity interest in Shanghai Longyao (details of which are disclosed in the Company's announcements dated 22 July 2018, 8 August 2018 31 October 2018 and 31 January 2019); and (ii) the remaining balance of approximately HK$39,000,000 for potential investments and/or general working capital of the Group. The net issue price was approximately HK$1.6478 per Placing Share and the aggregate nominal value of the Placing Shares under the Placing was HK$7,950,000. The completion of the Placing took place on 6 September 2018. Details of the Placing are disclosed in the announcements of the Company dated 22 August 2018 and 6 September 2018. As at the date of the report, the Company has utilised approximately (i) HK$46,276,000 for acquisition of Shanghai Longyao; (ii) HK$19,638,000 for subscription of shares in Pillar; and (iii) HK$13,664,000 for general working capital of the Group. The Company intends to apply (i) HK$43,755,000 for acquisition of Shanghai Longyao and (ii) the remaining balances of approximately HK$8,667,000 for potential investments and general working capital of the Group. The remaining balances of net proceeds from placing of new shares is expected to be fully utilised within 12 months from the date of this announcement.

SIGNIFICANT INVESTMENT HELD AND PERFORMANCE

During the 2018 Year, proceeds of HK$2,500,000 were received from disposal of financial assets at fair value through other comprehensive income and an investment of HK$39,282,000 was made for financial assets at fair value through other comprehensive income through subscription of new shares of Broncus, a company mainly engaged in the development and manufacturing of navigation, diagnostic and therapeutic technologies to treat patients with lung disease.

The Group did not hold any other significant investments with a market value that account for more than 5% of the Group's audited net assets as at 31 December 2018.

MATERIAL ACQUISITION AND DISPOSAL OF SUBSIDIARIES AND AFFILIATED COMPANIES

Except for the disposal of subsidiaries and the acquisition of approximately 67% of equity interest in Shanghai Longyao as disclosed in the section headed "BUSINESS REVIEW" above, the Group did not have any other material acquisition or disposal of subsidiaries and affiliated companies for the 2018 Year.

OPERATING LEASE COMMITMENTS

The Group as lessee

At 31 December 2018, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	2018	2017
	HK$'000	*HK$'000*
Within one year	**8,947**	8,007
In the second to fifth years inclusive	**1,332**	6,759
	10,279	14,766

Operating lease payments represent rentals payable by the Group for certain of its offices, warehouses and staff quarters. Leases are negotiated and rentals are fixed for a term ranging from one to three years (2017: one to eight years) and do not include contingent rentals.

CAPITAL COMMITMENTS

Capital commitments authorised for at the end of the reporting period but not yet contracted are as follows:

	2018	2017
	HK$'000	*HK$'000*
Capital contribution to:		
WFOE in Guizhou province, PRC	**25,438**	25,438
WFOE in Guangdong province, PRC	**9,481**	–
	34,919	25,438

On 29 September 2013, the Group has established an indirect wholly-owned wholly foreign-owned enterprise ("**WFOE**") in Guizhou Province, the PRC, pursuant to the cooperation agreement dated 28 June 2013 entered into with 貴州紅花崗經濟開發區委員會 (in English, for identification purpose, Guizhou Hong Hua Gang District Economic Development District Management Committee) in relation to the cooperation for the investment and construction of a pharmaceutical factory in Hong Hua Gang Economic Development District, Guizhou Province, the PRC. The registered capital of the WFOE is RMB30,000,000 and the Group has paid the registered capital of RMB10,000,000. The remaining capital commitment was RMB20,000,000 (equivalent to approximately HK$25,438,000).

On 19 January 2018, the Group has established another WFOE in Guangdong Province, the PRC, pursuant to the cooperation agreement dated 6 November 2017 entered into with 中國(廣東)自由貿易試驗區深圳前海蛇口片區管理委員會 (in English, China (Guangdong) Pilot Free Trade Zone Qianhai & Shekou Area of Shenzhen Management Committee) in related to cooperation for provision of biotech services. The registered capital of the WFOE is RMB10,000,000 and the Group has paid the registered capital of RMB1,742,000. The remaining capital commitment was RMB8,258,000 (equivalent to approximately HK$9,481,000).

CHARGES ON THE GROUP'S ASSETS

As at 31 December 2018, the Group had no such charge.

As at 31 December 2017, the Group had a secured bank borrowing of approximately HK$4,005,000, which was secured by a legal charge on leasehold land and buildings in Hong Kong with the carrying amounts of approximately HK$14,423,000 and a corporate guarantee executed by a subsidiary in favour of the bank for the banking facilities of HK$5,500,000. The banking facilities were subject to the fulfilment of restrictive covenants including certain financial ratios of a subsidiary as a guarantor, as at 31 December 2017, none of the restrictive covenants relating to drawn down facilities had been breached.

CONTINGENT LIABILITIES

As at 31 December 2018 and 2017, the Group had no contingent liabilities.

FOREIGN EXCHANGE AND INTEREST RATE EXPOSURE

During the 2018 Year, the business activities of the Group were mainly denominated in Hong Kong dollars and Renminbi. When appropriate and at times of interest rate or exchange rate uncertainties or volatility, hedging instruments including interest rate swaps and foreign currency forwards contract will be used by the Group in the management of exposure of interest rates and foreign exchange rate fluctuations as appropriate.

EMPLOYEES AND REMUNERATION POLICY

As at 31 December 2018, the Group had a total of 125 (2017: 170) full time employees who were located in the PRC and Hong Kong. Total staff costs for the 2018 Year was approximately HK$52,323,000 (2017 Year: HK$38,318,000).

The Group remunerates its employees based on their performance, experience and the prevailing market condition. Performance related bonuses are also granted on a discretionary basis. Other employee benefits include mandatory provident fund, insurance and medical coverage, training and share option scheme.

Provident fund benefits are offered to certain full-time employees through a registered scheme under the Occupational Retirement Schemes Ordinance ("**ORSO**") with the Mandatory Provident Fund exemption. The ORSO scheme is administered by trustees, which are independent, with assets held separately from those of the Group. Under the ORSO scheme, the Group contributes 5% of monthly salaries of employees.

The Group operates a Mandatory Provident Fund Scheme for all qualifying employees in Hong Kong (other than those who are covered under ORSO scheme). The assets of the scheme are held separately from those of the Group, in funds under the control of trustees. The Group contributes 5% of relevant payroll costs to the scheme subject to a maximum of HK$1,500 per month. The employees in the PRC are members of respective state-managed defined contribution retirement benefits scheme operated by the local government. The employer and the employees are obliged to make contributions at a certain percentage of the basic payroll under rules of the schemes. The only obligation of the Group with respect to the retirement benefit schemes is to make the specified contributions.

The total contributions payable to the above schemes by the Group and charged to the consolidated statement of profit or loss and other comprehensive income for the 2018 Year were approximately HK$1,737,000 (2017 Year: HK$1,723,000).

EVENTS AFTER THE REPORTING PERIOD

(a) On 9 January 2019, Best Global Group Limited, a company incorporated in BVI with limited liability and a direct wholly-owned subsidiary of the Company, agreed to subscribe for 819,108 series B preferred stock of Pillar at a total consideration of US$2,499,999.53 (equivalent to approximately HK$19.6 million) which will be settled in cash. Details of the share subscription were disclosed in the announcement of the Company dated 9 January 2019.

(b) On 31 January 2019, China Biology entered into a second supplemental agreement with 深圳市北辰生物技術有限公司 (the "**Vendor**"), a company incorporated in the PRC with limited liability and Shanghai Longyao, a company incorporated in the PRC with limited liability, that China Biology and the Vendor have agreed to adjust the consideration for the acquisition. Details of the consideration were disclosed in the announcements of the Company dated 22 July 2018, 8 August 2018, 31 October 2018 and 31 January 2019.

CORPORATE GOVERNANCE PRACTICES

The Board believes that corporate governance is essential to the success of the Company. The Board is committed to maintaining corporate governance with high standard and ensuring compliance of the legal and regulatory requirements. The Company has put in place governance practices with emphasis on the integrity, quality of disclosures, transparency and accountability for the shareholders of the Company.

Throughout the 2018 Year, the Company has complied with the code provisions in the Corporate Governance Code (the "**CG Code**") as set out in Appendix 15 to the GEM Listing Rules save for the deviations from code provision A.2.7 and A.6.7 of the CG Code as disclosed below.

Under code provision A.2.7 of the CG Code, the chairman of the Company should at least annually hold meetings with the non-executive Directors (including independent non-executive Directors) without the executive Directors present. As the chairman of the Company, Mr. Liu Xiaolin, is also an executive Director, he was unable to hold such meeting where no executive Director was present.

Under code provision A.6.7 of the CG Code, non-executive Director and independent non-executive Directors should attend general meetings of the Company. Due to other pre-arranged business commitments which had to be attended, Mr. Huang Song (being a non-executive Director) and Mr. Qian Hongji (being an independent non-executive Director) were unable to attend the annual general meeting of the Company held on 21 May 2018.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

Pursuant to the code provision A.2.1 of the CG Code, the roles of chairman and chief executive officer of the Company should be separate and should not be performed by the same individual. The division of responsibilities between the chairman and the chief executive officer should be clearly established and set out in writing. The position of the chairman is held by Mr. Liu Xiaolin. The responsibilities of the chairman of the Company is to ensure the Board to work effectively and perform its responsibilities, and all key and appropriate issues are discussed by the Board, draw up and approve the agenda for each board meeting and take into accounts, any matters proposed by others Directors for inclusion in the agenda.

As at 31 December 2018 and up to the date of this report, the Company has not appointed a chief executive officer and is looking for a suitable candidate to act as chief executive officer in order to comply with the CG Code. The office and duties of the chief executive officer in respect of the day-to-day management of the Group's business are held and handled by the executive Directors collectively.

COMPLIANCE WITH CODE OF CONDUCT FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted a code of conduct regarding securities transactions by Directors on terms not less exacting than the required standard of dealings as set out in Rules 5.48 to 5.67 of the GEM Listing Rules. Having made specific enquiry with all Directors, the Company confirmed that all Directors have complied with the required standard of dealings and its code of conduct regarding securities transactions by the Directors during the 2018 Year.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Following the resignation of Mr. Leung Ka Fai as an independent non-executive Director on 5 December 2017, the number of independent non-executive Directors is less than three as required under Rule 5.05(1) of the GEM Listing Rules. Following the appointment of Mr. Qian Hongji as independent non-executive Director on 2 March 2018, the requirement of having three independent non-executive directors has been fulfilled.

AUDIT COMMITTEE

Following the resignation of Mr. Leung Ka Fai as an independent non-executive Director on 5 December 2017, he also ceased to be a member of audit committee of the Company (the "**Audit Committee**"). As such, the Company was unable to fulfill the requirement of having three members on the audit committee as required under Rule 5.28 of the GEM Listing Rules. Following the appointment of Mr. Qian Hongji as a member of the Audit Committee with effect from 2 March 2018, the requirement of having three members on the Audit Committee has been fulfilled.

Mr. Ho Fung Shan Bob ceased to be a member of Audit Committee following his resignation as an independent non-executive Director with effect from 31 December 2018. Dr. Ho Ivan Chun Kit has been appointed as a member of of the Audit Committee with effect from 31 December 2018.

The Audit Committee is currently composed of three independent non-executive Directors, namely, Mr. Yan Guoxiang (chairman of the Audit Committee), Dr. Ho Ivan Chun Kit and Mr. Qian Hongji. The financial results for the 2018 Year have been reviewed by the Audit Committee.

The principal duties of the Audit Committee include:

(a) to review the relationship with the external auditor to (i) make recommendations to the Board on the appointment, reappointment and removal of the external auditor, and to approve the remuneration and terms of engagement of the external auditor, and any questions of its resignation or dismissal; and (ii) review and monitor the external auditor's independence and objectivity and the effectiveness of the audit process in accordance with applicable standards;

(b) to monitor integrity of the Company's financial statements and annual report and accounts, half-year report and quarterly reports, and review these reports and significant financial reporting judgments contained in them;

(c) to review the Company's financial controls, risk management and internal control systems, discuss the risk management and internal control systems with management to ensure that management has performed its duty to have effective systems, and consider major investigation findings on risk management and internal control matters;

(d) to consider any significant or unusual items that are, or may need to be, reflected in the report and accounts, it should give due consideration to any matters that have been raised by the Company's staff responsible for the accounting and financial reporting function, compliance officer or auditors; and

(e) to review arrangements employees of the Company can use, in confidence, raise concerns about possible improprieties in financial reporting, internal control or other matters, and ensure that proper arrangements are in place for fair and independent investigation of these matters and for appropriate follow-up action.

During the 2018 Year, the Audit Committee has performed the above mentioned principal duties and reviewed the Company's monthly unaudited consolidated financial statements, annual results, annual report, interim report and quarterly reports and to advise and comments thereon to the Board. The Audit Committee has performed the duties to review the compliance procedures, report on the Company's internal control and risk management. The Audit Committee also met the external auditor twice without the presence of the executive Directors. Besides, there is no disagreement between the Board and the Audit Committee regarding the re-appointment of external auditor.

The Audit Committee is established with written terms of reference in compliance with Rules 5.28 and 5.29 of the GEM Listing Rules. The full terms of reference setting out the Audit Committee's authority and its role and responsibilities are available on the websites of the Company (www.cbshhk.com) and the Stock Exchange.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

During the 2018 Year, the Company repurchased 520,000 shares of the Company at HK$1.68 per share on the Stock Exchange pursuant to the general mandate to buy back the shares of the Company granted by the shareholders of the Company to the Board at the annual general meeting of the Company held on 21 May 2018. The Company subsequently cancelled the repurchased shares on 5 November 2018.

Details of the repurchase are summarised as follows:

Date of repurchase	Number of shares	Repurchased price per share		Consideration
		Highest	**Lowest**	
		HK$	*HK$*	*HK$*
20 September 2018	60,000	1.68	1.68	100,800
21 September 2018	20,000	1.68	1.68	33,600
26 September 2018	60,000	1.68	1.68	100,800
27 September 2018	60,000	1.68	1.68	100,800
28 September 2018	80,000	1.68	1.68	134,400
2 October 2018	40,000	1.68	1.68	67,200
4 October 2018	20,000	1.68	1.68	33,600
5 October 2018	20,000	1.68	1.68	33,600
8 October 2018	80,000	1.68	1.68	134,400
9 October 2018	80,000	1.68	1.68	134,400
Total	520,000			873,600

The Board believes that the Shares have been trading at a level which does not reflect the underlying value of the Company in September and October 2018. The Share Repurchases would enhance the net asset value per Share and are therefore beneficial to the shareholders of the Company.

SUFFICIENCY OF PUBLIC FLOAT

Based on information publicly available to the Company and within the knowledge of the Directors as at the date of this report, the Company has maintained the prescribed public float under the GEM Listing Rules.

By order of the Board
China Biotech Services Holdings Limited
Liu Xiaolin
Chairman and Executive Director

Hong Kong, 25 March 2019

As at the date of this announcement, the Board comprises four executive Directors, namely Mr. Liu Xiaolin (Chairman), Mr. He Xun, Mr. Leung Pak Hou Anson, and Mr. Wang Zheng; one non-executive Director, namely Mr. Huang Song; and three independent non-executive Directors, namely Mr. Yan Guoxiang, Dr. Ho Ivan Chun Kit and Mr. Qian Hongji.

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