HEALTHCARE
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# CHINA HEALTHCARE ENTERPRISE GROUP LIMITED
# 華夏健康產業集團有限公司

*(incorporated in the Cayman Islands with limited liability)*

**(Stock Code: 1143)**

## RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2018

The board of directors (the "**Directors**") (the "**Board**") of China Healthcare Enterprise Group Limited 華夏健康產業集團有限公司 (the "**Company**") is pleased to announce the audited consolidated annual results of the Company and its subsidiaries (collectively, the "**Group**") for the year ended 31 December 2018 (the "**Year**"), together with the comparative figures of 2017.

**CONSOLIDATED STATEMENT OF PROFIT OR LOSS**
*For the year ended 31 December 2018*

| | Note | 2018 HK$'000 | 2017 HK$'000 |
|---|---|---|---|
| Revenue | 4 | **735,184** | 662,208 |
| Cost of sales | | **(562,695)** | (497,793) |
| **Gross profit** | | **172,489** | 164,415 |
| Other income | 5 | **27,100** | 19,524 |
| Selling and distribution expenses | | **(29,260)** | (45,578) |
| Administrative expenses | | **(185,037)** | (151,934) |
| Other operating expenses | | **(25,095)** | (94,789) |
| **Loss from operations** | | **(39,803)** | (108,362) |
| Finance costs | 6 | **(4,652)** | (13,049) |
| **Loss before tax** | | **(44,455)** | (121,411) |
| Income tax expense | 7 | **(4,845)** | (9,898) |
| **Loss for the year** | | **(49,300)** | (131,309) |
| **Attributable to:** | | | |
| Owners of the Company | | **(57,984)** | (128,428) |
| Non-controlling interests | | **8,684** | (2,881) |
| | | **(49,300)** | (131,309) |
| **Loss per share** | 9 | | |
| Basic (cents per share) | | **(0.975)** | (2.508) |
| Diluted (cents per share) | | **N/A** | N/A |

**CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME**
*For the year ended 31 December 2018*

| | **2018** | 2017 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| **Loss for the year** | **(49,300)** | (131,309) |
| **Other comprehensive income:** | | |
| *Items that will not be reclassified to profit or loss:* | | |
| Gain on property revaluation | **3,687** | 3,752 |
| Deferred tax charge from gain on property revaluation | **(495)** | (445) |
| Fair value changes of equity investments at fair value through other comprehensive income (FVTOCI) | **(25,716)** | – |
| | **(22,524)** | 3,307 |
| *Items that may be reclassified to profit or loss:* | | |
| Exchange differences on translating foreign operations | **352** | 266 |
| Exchange difference reclassified to profit or loss on disposal of subsidiaries | **–** | (429) |
| Fair value changes of available-for-sale financial assets | **–** | (40,427) |
| Reclassification adjustment for loss recognised in respect of available-for-sale financial assets | | |
| — Loss on disposal | **–** | 20,339 |
| — Impairment loss | **–** | 28,145 |
| | **352** | 7,894 |
| **Other comprehensive income for the year, net of tax** | **(22,172)** | 11,201 |
| **Total comprehensive income for the year** | **(71,472)** | (120,108) |
| **Attributable to:** | | |
| Owners of the Company | **(80,020)** | (117,302) |
| Non-controlling interests | **8,548** | (2,806) |
| | **(71,472)** | (120,108) |

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

*As at 31 December 2018*

| | Note | 2018 HK$'000 | 2017 HK$'000 |
|---|---|---|---|
| **ASSETS** | | | |
| **Non-current assets** | | | |
| Property, plant and equipment | | **51,904** | 57,876 |
| Investment properties | | **30,000** | 30,000 |
| Prepaid lease payments | | **1,288** | 2,034 |
| Goodwill | | **18,814** | 18,814 |
| Intangible assets | | **–** | – |
| Rental deposits | | **10,894** | 2,235 |
| Loans to employees and other parties | | **44,797** | – |
| Equity investments at FVTOCI | | **21,859** | – |
| Deferred tax assets | | **1,938** | 2,032 |
| **Total non-current assets** | | **181,494** | 112,991 |
| **Current assets** | | | |
| Inventories | | **113,962** | 85,164 |
| Trade receivables | *10* | **155,761** | 116,806 |
| Prepayments, deposits, other receivables and other assets | | **85,039** | 55,730 |
| Loans to employees and other parties | | **30,631** | 94,993 |
| Amount due from a related company | | **1,274** | 1,257 |
| Loan to a non-controlling shareholder of a subsidiary | | **1,731** | 120 |
| Available-for-sale financial assets | | **–** | 11,958 |
| Equity investments at FVTOCI | | **5,328** | – |
| Current tax assets | | **183** | 340 |
| Pledged bank deposits | | **1,250** | 1,850 |
| Bank and cash balances | | **354,209** | 479,379 |
| **Total current assets** | | **749,368** | 847,597 |
| **TOTAL ASSETS** | | **930,862** | 960,588 |
| **EQUITY AND LIABILITIES** | | | |
| **Equity** | | | |
| Equity attributable to owners of the Company | | | |
| Share capital | | **5,945** | 5,945 |
| Reserves | | **566,859** | 648,600 |
| | | **572,804** | 654,545 |
| Non-controlling interests | | **10,028** | (543) |
| **Total equity** | | **582,832** | 654,002 |

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONT'D)

*As at 31 December 2018*

| | Note | 2018 HK$'000 | 2017 HK$'000 |
|---|---|---|---|
| **LIABILITIES** | | | |
| **Non-current liabilities** | | | |
| Deferred tax liabilities | | – | 4,198 |
| **Total non-current liabilities** | | – | 4,198 |
| **Current liabilities** | | | |
| Trade payables | 11 | **76,474** | 74,829 |
| Accruals and other payables | | **215,463** | 169,169 |
| Amount due to a non-controlling shareholder of a subsidiary | | – | 535 |
| Borrowings | | **40,267** | 43,139 |
| License rights payable | | **4,108** | 6,184 |
| Product warranty provisions | | **2,498** | 3,336 |
| Current tax liabilities | | **9,220** | 5,196 |
| **Total current liabilities** | | **348,030** | 302,388 |
| **TOTAL EQUITY AND LIABILITIES** | | **930,862** | 960,588 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*FOR THE YEAR ENDED 31 DECEMBER 2018*

## 1. 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 (the "**Listing Rules**") on the Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") and with the disclosure requirements of the Hong Kong Companies Ordinance (Cap. 622).

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 2 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.

## 2. 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

***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 accumulated losses 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.

## 2. ADOPTION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (CONT'D)

### (a) Application of new and revised HKFRSs (Continued)

***HKFRS 9 Financial instruments (Continued)***

*(a) Classification*

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

- those to be measured subsequently at FVTOCI, 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, 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 financial assets at its fair value plus, in the case of financial assets not at fair value through profit or loss ("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.

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 can classify 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 not presented as separate line item in the consolidated statement of profit or loss as the amounts are not material.

- 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 recognised 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.

## 2. ADOPTION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (CONT'D)

### (a) Application of new and revised HKFRSs (Continued)

***HKFRS 9 Financial instruments (Continued)***

*(b) Measurement (Continued)*

- 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 recognised 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 ("ECL") associated with its debt instruments carried at amortised cost. 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.

For loans to other parties, the Group applies the general approach of HKFRS 9, which requires an amount equal to 12-month ECL to be recognised as the loss allowance if the credit risk has not increased significantly since initial recognition, and expected lifetime losses to be recognised if the credit risk has increased significantly since initial recognition.

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 accumulated losses as at 1 January 2018:

| | *Note* | *HK$'000* |
|---|---|---|
| Reclassify non-trading equity investments from available-for-sale financial assets to equity investments at FVTOCI | | 28,145 |
| Increase in impairment allowance on: | | |
| — trade receivables | *(ii)* | (774) |
| — loans to other parties | *(ii)* | (947) |
| Reduction of accumulated losses attributable to owners of the Company for the adoption of HKFRS 9 on 1 January 2018 | | 26,424 |

## 2. ADOPTION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (CONT'D)

### (a) Application of new and revised HKFRSs (Continued)

***HKFRS 9 Financial instruments (Continued)***

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** *HK$'000* | **Carrying amount under HKFRS 9** *HK$'000* |
|---|---|---|---|---|---|
| Equity investments | *(i)* | Available-for–sale | FVTOCI | 11,958 | 11,958 |
| Loans to employees and other parties | *(ii)* | Loans and receivables | Amortised cost | 94,993 | 94,046 |
| Trade receivables | *(ii)* | Loans and receivables | Amortised cost | 116,806 | 116,032 |
| Deposits and other receivables | *(iii)* | Loans and receivables | Amortised cost | 7,143 | 7,143 |
| Loan to a non-controlling shareholder of a subsidiary | *(iii)* | Loans and receivables | Amortised cost | 120 | 120 |
| Amount due from a related company | *(iii)* | Loans and receivables | Amortised cost | 1,257 | 1,257 |
| Pledged bank deposits | *(iii)* | Loans and receivables | Amortised cost | 1,850 | 1,850 |
| Bank and cash balances | *(iii)* | Loans and receivables | Amortised cost | 479,379 | 479,379 |

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

| | *Note* | **Effect on FVTOCI reserve** *HK$'000* | **Effect on accumulated losses** *HK$'000* |
|---|---|---|---|
| Opening balance — HKAS 39 (audited) | | – | (31,999) |
| Reclassify non-trading equity investments from available-for-sale financial assets to equity investments at FVTOCI | *(i)* | (28,145) | 28,145 |
| Impairment losses for trade receivables | *(ii)* | – | (774) |
| Impairment losses for loans to other parties | *(ii)* | – | (947) |
| Total impact | | (28,145) | 26,424 |
| Opening balance — HKFRS 9 (restated) | | (28,145) | (5,575) |

## 2. ADOPTION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (CONT'D)

### (a) Application of new and revised HKFRSs (Continued)

***HKFRS 9 Financial instruments (Continued)***

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 losses as follows:

| | *Note* | *HK$'000* |
|---|---|---|
| Impairment allowance for trade receivables at 31 December 2017 under HKAS 39 (audited) | | 2,827 |
| Additional impairment losses recognised at 1 January 2018 for: | | |
| — Trade receivables as at 31 December 2017 | *(ii)* | 774 |
| — Loans to other parties as at 31 December 2017 | *(ii)* | 947 |
| Impairment allowance at 1 January 2018 under HKFRS 9 (restated) | | 4,548 |

Impairment losses related to trade receivables and loans to other parties are not presented separately in the statement of profit or loss as the amounts are not material.

*Notes:*

(i) These equity investments represent investments that the Group intends to hold for long term strategic purposes. As permitted by HKFRS 9, the Group has designated these investments at the date of initial application as measured at FVTOCI. As a result, these equity investments with a fair value of HK$11,958,000 were reclassified from available-for-sale financial assets to equity investments at FVTOCI and fair value loss of HK$28,145,000 was reclassified from accumulated losses to the FVTOCI reserve on 1 January 2018. Unlike HKAS 39, the accumulated fair value reserve related to these investments will never be reclassified to profit or loss.

(ii) Trade receivables and loans to employees and other parties that were classified as loans and receivables under HKAS 39 are now classified at amortised cost. An increase of HK$1,721,000 in the impairment allowance for these receivables was recognised in opening accumulated losses at 1 January 2018 on transition to HKFRS 9.

(iii) These financial assets were classified as loans and receivables under HKAS 39 are now classified at amortised cost. No further impairment loss was recognised in opening accumulated losses at 1 January 2018 on transition to HKFRS 9.

***HKFRS 15 Revenue from contracts with customers***

HKFRS 15 establishes a comprehensive framework for recognising revenue and some costs from contracts with customers. HKFRS 15 replaces HKAS 18 Revenue, which covered revenue arising from sale of goods and rendering of services, and HKAS 11 Construction contracts, which specified the accounting for construction contracts.

The Group has elected to use the cumulative effect transition method and has recognised the cumulative effect of initial application as an adjustment to the opening balance of equity at 1 January 2018. Therefore, comparative information has not been restated and continues to be reported under HKAS 11 and HKAS 18. As allowed by HKFRS 15, the Group has applied the new requirements only to contracts that were not completed before 1 January 2018.

## 2. ADOPTION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (CONT'D)

### (a) Application of new and revised HKFRSs (Continued)

***HKFRS 15 Revenue from contracts with customers (Continued)***

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

*Accounting for revenue from sales of manufactured goods and medical equipments*

The Group manufactures and sells a range of electronic products and medical equipments. Sales are recognised when control of the products has transferred, being when the products are delivered to the customer, the customer has full discretion over the channel and price to sell the products, and there is no unfulfilled obligation that could affect the customer's acceptance of the products. Delivery occurs when the products have been shipped to the specific location, the risks of obsolescence and loss have been transferred to the customer.

No element of financing is deemed present as the sales are made with credit terms ranged from 30 to 120 days.

The Group is required to pay for marketing promotion fees for products sold in customers' chain stores. These fees are regarded as consideration payable to a customer and not being distinct. These fees are therefore accounted for as a reduction of transaction price.

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.

*Accounting for revenue from catering services*

Revenue from catering service is recognised immediately after the services are rendered.

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

The following tables summarise the estimated impact of adoption of HKFRS 15 on the Group's consolidated financial statements for the year ended 31 December 2018, by comparing the amounts reported under HKFRS 15 in these consolidated financial statements with estimates of the hypothetical amounts that would have been recognised under HKAS 18 and HKAS 11 if those superseded standards had continued to apply to 2018 instead of HKFRS 15. The table shows only those line items impacted by the adoption of HKFRS 15:

| **For the year ended 31 December 2018** | *Note* | **Hypothetical amounts under HKASs 18 and 11** *HK$'000* | **Estimated impact of adoption of HKFRS 15** *HK$'000* | **Amounts reported in accordance with HKFRS 15** *HK$'000* |
|---|---|---|---|---|
| **Consolidated statement of profit or loss (extract)** | | | | |
| Revenue | *(a)* | 742,246 | (7,062) | 735,184 |
| Selling and distribution expenses | *(a)* | (36,322) | 7,062 | (29,260) |

The significant difference arise as a result of the changes in accounting policies classified above.

(a) Marketing promotion fee now presented as a reduction of revenue was previously presented in selling and distribution expenses.

## 2. ADOPTION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (CONT'D)

### (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 Interests 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, factories and staff quarters 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.

## 2. ADOPTION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (CONT'D)

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

***HKFRS 16 Leases (Continued)***

The Group's future minimum lease payments under non-cancellable operating leases for its staff quarters, factories and offices amounted to HK$90,411,000 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.

## 3. SEGMENT INFORMATION

The Group has three operating segments as follows:

| | | |
|---|---|---|
| EMS | — | Electronic manufacturing services |
| Distribution of Communications Products | — | Marketing and distribution of communications products |
| Securities and Other Assets Investment | — | Securities and other assets investment |

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.

Segment profits or losses do not include interest income on loans to other parties, gain on disposal of a subsidiary, interest on loans from independent third party/parties and unallocated expenses. Segment assets do not include unallocated bank and cash balances, unallocated prepayments, deposits, other receivables and other assets, loans to other parties and deferred tax assets. Segment liabilities do not include borrowings, unallocated accruals and other payables and deferred tax liabilities. Segment non-current assets do not include deferred tax 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.

## 3. SEGMENT INFORMATION (CONT'D)

### (a) Information about reportable segment profit or loss, assets and liabilities:

| | EMS<br>*HK$'000* | Distribution of Communications Products<br>*HK$'000* | Securities and Other Assets Investment<br>*HK$'000* | Total<br>*HK$'000* |
|---|---|---|---|---|
| **Year ended 31 December 2018** | | | | |
| Revenue from external customers | **622,882** | **43,729** | **68,573** | **735,184** |
| Intersegment revenue | **25,005** | **–** | **–** | **25,005** |
| Segment profit/(loss) | **36,330** | **1,281** | **(54,440)** | **(16,829)** |
| Interest revenue | **404** | **2** | **33** | **439** |
| Interest expense | **(60)** | **(286)** | **(1,873)** | **(2,219)** |
| Depreciation | **(15,278)** | **(5)** | **(2,205)** | **(17,488)** |
| Other material non-cash items: | | | | |
| Net gain on disposal of subsidiaries | **1,947** | **–** | **–** | **1,947** |
| Waive of license rights payable *(note 5)* | **–** | **1,857** | **–** | **1,857** |
| Additions to segment non-current assets | **30,653** | **–** | **10,486** | **41,139** |
| **As at 31 December 2018** | | | | |
| Segment assets | **375,674** | **27,703** | **465,166** | **868,543** |
| Segment liabilities | **229,985** | **28,612** | **84,002** | **342,599** |

| | EMS<br>*HK$'000* | Distribution of Communications Products<br>*HK$'000* | Securities and Other Assets Investment<br>*HK$'000* | Total<br>*HK$'000* |
|---|---|---|---|---|
| **Year ended 31 December 2017** | | | | |
| Revenue from external customers | 576,580 | 71,117 | 14,511 | 662,208 |
| Intersegment revenue | 34,723 | – | – | 34,723 |
| Segment profit/(loss) | 13,792 | (1,271) | (95,301) | (82,780) |
| Interest revenue | 898 | 14 | 29 | 941 |
| Interest expense | – | (633) | (736) | (1,369) |
| Depreciation | (14,942) | (47) | (786) | (15,775) |
| Other material non-cash items: | | | | |
| Fair value gain on investment properties *(note 5)* | – | – | 2,157 | 2,157 |
| Gain on bargain purchase from business combination *(note 5)* | – | – | 2,354 | 2,354 |
| Impairment loss on available-for-sale financial assets | – | – | (28,145) | (28,145) |
| Loss on disposal of available-for-sale financial assets | – | – | (20,339) | (20,339) |
| Impairment loss on receivables for factoring business | – | – | (15) | (15) |
| (Loss)/gain on disposal of subsidiaries | (19,217) | – | 4,388 | (14,829) |
| Additions to segment non-current assets | 4,765 | – | 47,899 | 52,664 |
| **As at 31 December 2017** | | | | |
| Segment assets | 469,422 | 30,501 | 365,581 | 865,504 |
| Segment liabilities | 240,970 | 32,630 | 31,697 | 305,297 |

## 3. SEGMENT INFORMATION (CONT'D)

### (b) Reconciliations of segment revenue and profit or loss:

| | 2018<br>*HK$'000* | 2017<br>*HK$'000* |
|---|---|---|
| **Revenue** | | |
| Total revenue of reportable segments | **760,189** | 696,931 |
| Elimination of intersegment revenue | **(25,005)** | (34,723) |
| Consolidated revenue | **735,184** | 662,208 |

| | 2018<br>*HK$'000* | 2017<br>*HK$'000* |
|---|---|---|
| **Profit or loss** | | |
| Total loss of reportable segments | **(16,829)** | (82,780) |
| Intersegment elimination | **(291)** | 851 |
| Unallocated amounts: | | |
| Interest income on loans to other parties | **8,166** | 3,630 |
| Gain on disposal of a subsidiary | **700** | – |
| Imputed interest on non-interest bearing loans from a substantial shareholder | **–** | (10,288) |
| Interest on loans from independent third party/parties | **(2,433)** | (1,392) |
| Other unallocated head office and corporate expenses | **(33,768)** | (31,432) |
| Consolidated loss before tax | **(44,455)** | (121,411) |

### (c) Reconciliations of segment assets and liabilities:

| | 2018<br>*HK$'000* | 2017<br>*HK$'000* |
|---|---|---|
| **Assets** | | |
| Total assets of reportable segments | **868,543** | 865,504 |
| Elimination of intersegment assets | **(23,453)** | (25,805) |
| Elimination of unrealised profits | **(1,613)** | (1,321) |
| Unallocated amounts: | | |
| Bank and cash balances | **39** | 3 |
| Prepayments, deposits, other receivables and other assets | **12,629** | 28,545 |
| Loans to other parties | **72,779** | 91,630 |
| Deferred tax assets | **1,938** | 2,032 |
| Consolidated total assets | **930,862** | 960,588 |

3. **SEGMENT INFORMATION (CONT'D)**

(c) **Reconciliations of segment assets and liabilities: (Continued)**

| | **2018** | 2017 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| **Liabilities** | | |
| Total liabilities of reportable segments | **342,599** | 305,297 |
| Elimination of intersegment liabilities | **(23,453)** | (25,805) |
| Unallocated amounts: | | |
| Accruals and other payables | **8,884** | 2,896 |
| Borrowings | **20,000** | 20,000 |
| Deferred tax liabilities | **–** | 4,198 |
| Consolidated total liabilities | **348,030** | 306,586 |

(d) **Geographical information:**

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

| | **2018** | 2017 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| **Revenue** | | |
| The People's Republic of China (the "PRC") (including Hong Kong) | **173,750** | 97,535 |
| The United States of America (the "U.S.A.") | **129,893** | 155,821 |
| Switzerland | **196,631** | 133,096 |
| France | **44,327** | 39,173 |
| Poland | **4,619** | 7,431 |
| United Kingdom | **25,740** | 26,684 |
| Others | **160,224** | 202,468 |
| Consolidated total | **735,184** | 662,208 |

| | **2018** | 2017 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| **Non-current assets** | | |
| The PRC (including Hong Kong) | **179,556** | 110,954 |
| The U.S.A. | **–** | 5 |
| Consolidated total | **179,556** | 110,959 |

## 3. SEGMENT INFORMATION (CONT'D)

### (e) Revenue from major customers:

An analysis of revenue from major customers which account for 10 percent or more of the Group's revenue is as follows:

| | **2018** | 2017 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| **EMS segment** | | |
| Customer A | **306,677** | 200,020 |
| Customer B | **110,492** | 102,487 |

## 4. REVENUE

**Disaggregation of revenue**

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

| | **2018** | 2017 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| **Revenue from contracts with customers within the scope of HKFRS 15** | | |
| Disaggregated by major products or service lines | | |
| — Sales of goods | **720,313** | 655,015 |
| — Provision of catering service | **14,871** | 6,617 |
| | **735,184** | 661,632 |
| **Revenue from other sources** | | |
| Factoring interest income | **–** | 484 |
| Internet financial services income | **–** | 92 |
| | **735,184** | 662,208 |

## 4. REVENUE (Continued)

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

| | Electronic manufacturing services | | Marketing and distribution of communications products | | Securities and other assets investment | | Total | |
|---|---|---|---|---|---|---|---|---|
| | **2018** | 2017 | **2018** | 2017 | **2018** | 2017 | **2018** | 2017 |
| | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* |
| **Primary geographical markets** | | | | | | | | |
| — The PRC (including Hong Kong) | **105,177** | 83,024 | **–** | – | **68,573** | 14,511 | **173,750** | 97,535 |
| — The U.S.A. | **118,123** | 126,452 | **36,775** | 64,092 | **–** | – | **154,898** | 190,544 |
| — Switzerland | **196,631** | 133,096 | **–** | – | **–** | – | **196,631** | 133,096 |
| — France | **44,327** | 39,173 | **–** | – | **–** | – | **44,327** | 39,173 |
| — Poland | **4,619** | 7,431 | **–** | – | **–** | – | **4,619** | 7,431 |
| — United Kingdom | **25,740** | 26,684 | **–** | – | **–** | – | **25,740** | 26,684 |
| — Others | **153,270** | 195,443 | **6,954** | 7,025 | **–** | – | **160,224** | 202,468 |
| Segment revenue | **647,887** | 611,303 | **43,729** | 71,117 | **68,573** | 14,511 | **760,189** | 696,931 |
| Intersegment revenue | | | | | | | | |
| — The U.S.A. | **(25,005)** | (34,723) | **–** | – | **–** | – | **(25,005)** | (34,723) |
| Revenue from external customers | **622,882** | 576,580 | **43,729** | 71,117 | **68,573** | 14,511 | **735,184** | 662,208 |
| **Timing of revenue recognition** | | | | | | | | |
| Products transferred at a point in time | **622,882** | 576,580 | **43,729** | 71,117 | **68,573** | 14,511 | **735,184** | 662,208 |
| Products and services transferred over time | **–** | – | **–** | – | **–** | – | **–** | – |
| Total | **622,882** | 576,580 | **43,729** | 71,117 | **68,573** | 14,511 | **735,184** | 662,208 |

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

## 5. OTHER INCOME

| | **2018** | 2017 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Bank interest income | **170** | 246 |
| Bank fixed deposit interest income | **269** | 695 |
| Consultancy fee income | **2,473** | – |
| Commission income | **–** | 1,137 |
| Exchange gains | **5,668** | 1,838 |
| Fair value gain on investment properties | **–** | 2,157 |
| Interest income on loans to employees and other parties | **8,196** | 3,659 |
| Tooling income | **–** | 372 |
| Gain on bargain purchase from business combination | **–** | 2,354 |
| Gain on disposal of property, plant and equipment | **88** | – |
| Gain on disposal of subsidiaries | **2,699** | 4,402 |
| Government subsidy | **–** | 93 |
| Sales of scrap materials | **12** | 286 |
| Reversal of impairment losses on trade receivables | **3,164** | – |
| Waive of license rights payable | **1,857** | – |
| Others | **2,504** | 2,285 |
| | **27,100** | 19,524 |

## 6. FINANCE COSTS

| | **2018** | 2017 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Imputed interest on non-interest bearing loans from a substantial shareholder | **–** | 10,288 |
| Interest on loans from independent third party/parties | **2,433** | 1,392 |
| Interest on loans from a related company | **1,873** | 736 |
| Other interest expenses | **346** | 633 |
| | **4,652** | 13,049 |

## 7. INCOME TAX EXPENSE

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

| | **2018** | 2017 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Current tax — Hong Kong Profits Tax | | |
| Provision for the year | **3,330** | 5,302 |
| Current tax — Overseas | | |
| Provision for the year | **6,114** | 804 |
| Under-provision in prior years | **–** | 93 |
| | **6,114** | 897 |
| Deferred tax | **(4,599)** | 3,699 |
| | **4,845** | 9,898 |

## 7. INCOME TAX EXPENSE (CONT'D)

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

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

| | **2018** | 2017 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Loss before tax | **(44,455)** | (121,411) |
| Tax at the Hong Kong Profits Tax rate of 16.5% (2017: 16.5%) | **(6,726)** | (20,033) |
| Tax effect of income that is not taxable | **(9,403)** | (2,410) |
| Tax effect of expenses that are not deductible | **8,341** | 21,359 |
| Tax effect of temporary differences not recognised | **29** | 421 |
| Tax effect of tax concession | **(2,501)** | (4,101) |
| Under-provision in prior years | **–** | 93 |
| Tax effect of utilisation of tax losses not previously recognised | **(528)** | (545) |
| Tax effect of tax losses not recognised | **12,854** | 19,096 |
| Effect of different tax rates of subsidiaries | **3,208** | (3,973) |
| Others | **(429)** | (9) |
| Income tax expense | **4,845** | 9,898 |

## 8. DIVIDENDS

No dividends have been paid or proposed during the year ended 31 December 2018, nor has any dividend been proposed since the end of the reporting period (2017: Nil).

## 9. LOSS PER SHARE

The calculation of the basic and diluted loss per share is based on the following:

| | 2018<br>*HK$'000* | 2017<br>*HK$'000* |
|---|---|---|
| **Loss** | | |
| Loss attributable to owners of the Company, used in the basic loss per share calculation | **(57,984)** | (128,428) |

**(a) Basic loss per share**

*Number of shares — Basic*

| | 2018 | 2017 |
|---|---|---|
| Weighted average number of ordinary shares for the purpose of calculating basic loss per share | **5,945,311,400** | 5,120,763,455 |

**(b) Diluted loss per share**

No diluted loss per share was presented as the Company did not have any diluted potential ordinary shares for the years ended 31 December 2018 and 2017.

## 10. TRADE RECEIVABLES

| | 2018<br>*HK$'000* | 2017<br>*HK$'000* |
|---|---|---|
| Trade receivables | **156,205** | 119,633 |
| Allowance for trade receivables | **(444)** | (2,827) |
| | **155,761** | 116,806 |

The Group's trading terms with customers are mainly on credit. The credit terms generally range from 30 to 120 days. 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<br>*HK$'000* | 2017<br>*HK$'000* |
|---|---|---|
| 0 to 90 days | **135,996** | 104,863 |
| 91 to 180 days | **17,454** | 10,469 |
| 181 to 365 days | **1,305** | 816 |
| Over 365 days | **1,006** | 658 |
| | **155,761** | 116,806 |

## 10. TRADE RECEIVABLES (CONT'D)

Reconciliation of allowance for trade receivables:

| | **2018** | 2017 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| At the beginning of year | **2,827** | 5,197 |
| Effect of adoption of HKFRS 9 | **774** | – |
| At the beginning of year (restated) | **3,601** | 5,197 |
| Impairment losses for the year | **148** | 2,827 |
| Bad debts written off | **(141)** | (5,197) |
| Reversal | **(3,164)** | – |
| At 31 December | **444** | 2,827 |

The individually impaired trade receivables relate to customers that were in financial difficulties or were in default in payments and the receivables are not expected to be recovered.

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

| | **2018** | 2017 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| United States dollar ("USD") | **131,606** | 110,235 |
| Hong Kong dollar ("HKD") | **693** | 947 |
| Renminbi ("RMB") | **23,462** | 5,624 |
| Total | **155,761** | 116,806 |

## 11. TRADE PAYABLES

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

| | **2018** | 2017 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| 0 to 90 days | **70,149** | 73,028 |
| 91 to 180 days | **2,619** | 568 |
| 181 to 365 days | **2,133** | 354 |
| Over 365 days | **1,573** | 879 |
| | **76,474** | 74,829 |

## 11. TRADE PAYABLES (CONT'D)

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

| | **2018** | 2017 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| USD | **7,860** | 9,749 |
| HKD | **26,471** | 24,890 |
| RMB | **41,596** | 40,190 |
| Euro | **547** | – |
| Total | **76,474** | 74,829 |

## SCOPE OF WORK OF RSM HONG KONG

The figures in respect of the Group's consolidated statement of financial position, consolidated statement of profit or loss and other comprehensive income, and the related notes thereto for the year ended 31 December 2018 as set out in the preliminary announcement have been agreed by the Group's auditors, RSM Hong Kong, to the amounts set out in the Group's audited consolidated financial statements for the year. The work performed by RSM Hong Kong in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by RSM Hong Kong on the preliminary announcement.

## MANAGEMENT DISCUSSION AND ANALYSIS

## BUSINESS OVERVIEW

During the Year, the Group has continued to expedite development of the EMS and Distribution of Communication Products businesses. To expand revenue streams, the Group has also strived to capture opportunities arising from the healthcare and medical industry in the PRC.

For the financial year ended 31 December 2018, the Group generated total revenue of approximately HK$735.2 million (2017: HK$662.2 million). Gross profit amounted to HK$172.5 million (2017: HK$164.4 million), while loss attributable to owners of the Company narrowed to HK$58.0 million (2017: HK$128.4 million).

As at 31 December 2018, the Group had bank and cash balances totalling HK$354.2 million (2017: HK$479.4 million), thus remaining in a healthy financial position.

## REVIEW OF OPERATIONS

### The EMS and Distribution of Communications Products Business

The EMS and Distribution of Communication Products businesses contributed revenue of HK$622.9 million (2017: HK$576.6 million) and HK$43.7 million (2017: HK$71.1 million) respectively to the Group. In respect of the former, the modest improvement in turnover can be attributed to adjustments made to the product mix, with certain obsolete products replaced with new counterparts during the Year.

The Group managed to have increasing contribution from these businesses even though the businesses were affected by appreciation of the cost of goods sold during the Year. The loss on disposal of various loss-making subsidiaries of the Group in the preceding financial year no longer affected the profit margin of the EMS segment. Furthermore, we were able to derive a profit from the disposal of subsidiaries in this year, as well as benefit from a decline in the share of net loss owing to the disposal of the aforementioned subsidiaries.

### Securities and Other Assets Investment

Indicative of its relatively brief period of operation, having been established in 2016, the Securities and Other Assets Investment business contributed revenue of HK$68.6 million (2017: HK$14.5 million) to the Group during the Year, primarily through the sale of medical equipments in the PRC.

In view of the immense potential of the healthcare and medical industry in the PRC, the Group will continue to build on its beachhead in the country, while at the same time develop the Securities and Other Assets Investment operation. In this way, the Group will lay the groundwork for deriving greater revenue going forward.

### Geographical Analysis

Revenue from the major European countries (the United Kingdom, Switzerland, Poland and France) totalled HK$271.3 million (2017: HK$206.4 million), and accounted for 36.9% (2017: 31.2%) of the Group's total revenue for the year ended 31 December 2018. The U.S.A. market contributed HK$129.9 million (2017: HK$155.8 million) in revenue and accounted for 17.7% (2017: 23.5%) of the Group's total revenue. The PRC (including Hong Kong) and other countries accounted for HK$173.8 million (2017: HK$97.5 million) and HK$160.2 million (2017: HK$202.5 million) respectively, representing 23.6% (2017: 14.7%) and 21.8% (2017; 30.6%) of the Group's total revenue.

## FINANCIAL REVIEW

### Revenue

For the year ended 31 December 2018, the Group recorded total revenue of HK$735.2 million (2017: HK$662.2 million).

The Group's reporting segments are strategic business units that offer different products and services. There are three broad groups of business units for segment accounting purpose, EMS, Distribution of Communications Products and the Securities and Other Assets Investment. In EMS segment, there are also two main groups of products, namely communications and non-communications products whereas non-communications products mainly include appliances and appliances control products and multimedia products. Distribution of Communications Products segment represents the marketing and distribution of communications products. The function of the Securities and Other Assets Investment segment is to carry out effective financial management.

For the year ended 31 December 2018, the revenue from EMS segment increased by 8.0% to HK$622.9 million (2017: HK$576.6 million), whereas the revenue from Distribution of Communications Products segment decreased by 38.5% to HK$43.7 million (2017: HK$71.1 million). The Securities and Other Assets Investment segment contributed revenue of approximately HK$68.6 million (2017: HK$14.5 million).

The increase in the revenue of EMS segment was mainly resulted from the increase in the business of appliance and appliances control products of HK$63.6 million, offset by the decrease in sales of beauty care product of HK$26.9 million. The decrease in revenue of Distribution of Communications Products segment was caused by the decline in overall demand in business phone sector.

**Cost of Sales**

Cost of sales increased by 13.0% from HK$497.8 million in 2017 to HK$562.7 million in 2018 corresponded to the level of revenue of the Year.

**Gross Profit**

Gross profit increased by 4.9% from HK$164.4 million to HK$172.5 million, with gross profit margin of 23.5% (2017: 24.8%). The increase in gross profit was mainly due to surge in the sales of medical equipments in the PRC, whilst the decline in gross profit margin is arising from higher material and labor cost.

**Other income**

The other income increased from HK$19.5 million to HK$27.1 million comparing with last year. The major components of the other income are represented by the exchange gains of HK$5.7 million, consultancy fee income of HK$2.5 million, reversal of impairment losses on trade receivables of HK$3.2 million, gain on disposal of subsidiaries of HK$2.7 million and interest income on loans to employees and other parties of HK$8.2 million.

**Selling and distribution expenses**

Selling and distribution expenses of HK$29.3 million (2017: HK$45.6 million) accounted for approximately 4.0% in 2018 and 6.9% in 2017 of the Group's revenue. The decrease is mainly caused by the decrease in staff cost of approximately HK$1.9 million and decline in promotion and advertising expenses of HK$10.2 million (after the adoption effect of HKFRS 15) comparing with last year.

**Administrative expenses**

Administrative expenses of HK$185.0 million (2017: HK$151.9 million) marked an increment of HK$33.1 million, mainly contributed by the increase in human resources cost of HK$13.5 million, rental expenses of HK$20.2 million, consultancy fee of HK$1.3 million and legal and professional fees of HK$3.7 million offset by the decline in entertainment expenses of HK$10.6 million. The administrative expenses accounted for approximately 25.2% in 2018 and 22.9% in 2017 of the Group's revenue.

**Other operating expenses**

Other operating expenses decreased by 73.5% from HK$94.8 million in 2017 to HK$25.1 million in 2018. The decrease was mainly attributable to the absence of the disposal loss and impairment loss regarding the equity investments amounting to HK$20.3 million and HK$28.1 million respectively, together with the decrease in loss on disposal of subsidiaries of HK$19.1 million.

**Finance costs**

The Group's finance costs mainly comprise the interest on loans from independent third party and related companies. The Group's finance costs were approximately HK$4.7 million in 2018 and HK$13.0 million in 2017, representing approximately 0.6% and 2.0% of the revenue in 2018 and 2017, respectively. The drop is largely due to the absence of imputed interest on loans from a substantial shareholder after repayment, amounting to HK$10.3 million.

**Income tax expenses**

The Group's income tax expense represents amounts of income tax paid by the Group, at the applicable tax rates in accordance with the relevant laws and regulations in Hong Kong, PRC and U.S.A.. The Group had no tax payable in other jurisdictions during the years ended 31 December 2018 and 2017.

**Loss attributable to owners of the Company**

The loss attributable to owners of the Company is of HK$58.0 million (2017: HK$128.4 million). The Group's net loss margin attributable to owners of the Company for the year ended 31 December 2018 was -7.9% (2017: -19.4%).

**Profit for the year attributable to non-controlling interests**

Profit for the year attributable to non-controlling interests amounted to HK$8.7 million for the year ended 31 December 2018 (2017: Loss of HK$2.9 million). The emerged profit attributable to the non-controlling interests mainly contributed by the sales of medical equipments in the PRC.

## LIQUIDITY AND CAPITAL RESOURCES

The Group generally finances its operations and capital expenditure by internally generated cashflows, the proceeds from the Company's initial public offering in January 2011 and borrowings.

As at 31 December 2018, the bank and cash balances amounted to HK$354.2 million (2017: HK$479.4 million), representing an decrease of HK$125.2 million from 2017. Respective sum of 8.0%, 15.7% and 73.7% of the bank and cash balances was denominated in RMB, USD and HKD respectively.

The Group's current ratio remains in a healthy position at 2.15 times (2017: 2.8 times).

As at 31 December 2018, the carrying amounts of the loans from related companies and loan from an independent third party are HK$20.3 million and HK$20.0 million, respectively. As at 31 December 2017, the borrowings represented the loans from related companies and loan from an independent third party of HK$23.1 million and HK$20.0 million, respectively.

**Cash flow**

In 2018, HK$95.8 million was used in the operating activities, whilst HK$43.4 million and HK$1.8 million were used in investing activities and financing activities respectively. Net cash outflow from financing activities was related to the net borrowings repayment. Net cash outflow from investing activities was mainly sourced from the purchase of equity investments at FVTOCI of HK$40.9 million, increase in cash in margin accounts of brokerage firms of HK$14.1 million and purchase of property, plant and equipment of HK$41.1 million, being offset by the cash inflow arising from the disposal of subsidiaries of HK$30.3 million and decrease in loans to employees and other parties of HK$20.3 million.

**Exchange risk exposure**

The Group has transactional currency exposures. Such exposures arise from the business operations in the PRC and Hong Kong denominated in RMB and USD respectively. As at 31 December 2018, the Group had minimal exposure to foreign currency risk as most of its business transactions, assets and liabilities were principally denominated in the respective functional currencies, i.e. RMB and USD, used by the respective group entities, or in USD for the respective group entities with HKD being the functional currency. As HKD is pegged to USD, the Group considers the risk of movements in exchange rates between HKD and USD to be insignificant for transactions denominated in USD. The RMB is not freely convertible into other foreign currencies and conversion of the RMB into foreign currencies is subject to rules and regulations of foreign exchange control promulgated by the PRC government. As at 31 December 2018, the Group does not have a foreign currency hedging policy in respect of its foreign currency assets and liabilities. The Group had no investment in any financial derivatives, foreign exchange contracts, interest or currency swaps, hedging or other financial arrangements for hedging purposes to reduce any currency risk nor made any over-the-counter contingent forward transactions. The Group will closely monitor its foreign currency exposure and will consider using hedging instruments in respect of significant foreign currency exposure as and when appropriate.

**Capital expenditure**

Capital expenditure for 2018 amounted to HK$41.1 million and capital commitments as at 31 December 2018 amounted to HK$0.3 million. Both the capital expenditure and capital commitments were mainly related to the acquisition of plant and machinery as well as leasehold improvements.

**Pledge of assets**

As at 31 December 2018, bank deposits of HK$1.3 million (2017: HK$1.9 million) were pledged to banks for securing banking facilities and also certain shares of subsidiaries have been pledged to an independent third party to secure a loan facility available to the Group.

**Contingent liabilities**

(i) As at 31 December 2017 and 2018, the Group had an outstanding guarantee ("the Guarantee") to one of the suppliers of an overseas subsidiary ("Disposed Subsidiary"), which was disposed on 7 October 2015, for payment in relation to a sum of US$2.6 million (equivalent to approximately HK$20.3 million) representing a trade balance under dispute between the Disposed Subsidiary and the supplier. The supplier subsequently sold the trade balance to a third party.

    During 2017, the Disposed Subsidiary had agreed with the third party for a final settlement by instalment of US$650,000 (equivalent to approximately HK$5.1 million). In this regard, as at 31 December 2018, the Group had an outstanding guarantee of the sum limited to US$650,000 subject to the full payment of the final settlement effected by the Disposed Subsidiary.

    The Disposed Subsidiary had issued counter guarantee to the Company to indemnify the Company for any loss in relation to the Guarantee.

(ii) During the Year, a lawsuit was lodged against a subsidiary of the Company, Guangzhou Telefield Limited. The plaintiff seeks compensation of approximately RMB1 million. Having sought legal advices, the directors are of the view that the above compensation shall be disclosed as contingent liabilities.

Apart from the above, the Group and the Company did not have any significant contingent liabilities.

**Significant investments**

As at 31 December 2018, the Group was holding listed equity investments at fair value of approximately HK$27.2 million (2017: HK$12.0 million), which were classified as equity investments at FVTOCI (2017: available-for-sale financial assets). Due to the downward movements of the share prices, fair value change in respect of such investments of approximately HK$25.7 million (2017: HK$40.4 million) was recorded in other comprehensive income. No dividend income was received during the year ended 31 December 2018 in respect of these investments.

Apart from the aforesaid transactions, there were no other material investment by the Group that should be notified to the Shareholders of the Company.

**Human resources**

As at 31 December 2018, the Group had approximately 1,600 employees in various operating units located in Hong Kong, U.S.A. and PRC. In order to attract and retain high quality talents to ensure smooth operation and cater for the Group's constant expansion, it offers competitive remuneration packages, with reference to market conditions, individual qualifications and experience.

There is no outstanding share option as at 31 December 2018 and 2017. In addition, no share option was granted, cancelled or lapsed during the year ended 31 December 2018.

## PROSPECTS

Even though the global economy achieved above average growth in 2018, the World Bank forecasts global growth to decelerate in 2019 and 2020 as major central banks begin removing policy accommodations. Also, with trade talks between the U.S.A. and PRC continuing with no immediate resolution, consumer sentiment will invariably be lacklustre.

While the aforementioned developments are not to be ignored, the Group's EMS business has performed encouragingly, although customers have become more cautious due to the ongoing trade talks. The Group will continue to vigorously pursue fresh opportunities. At the same time, it will be vigilant for potential risks to its profit margin, such as appreciation of the RMB and rise in component costs, and take prompt and appropriate actions. Moreover, the Group will direct resources towards research and development so that new products of higher margin are subsequently launched, including IoT, Wi-Fi and Bluetooth enabled smart-home appliances that give fresh impetus for the development of the EMS segment.

With regard to the Securities and Other Assets Investment operation, the Group will continue to focus principally on leveraging the burgeoning PRC healthcare market. As the PRC government has been supportive of advancing healthcare, as outlined in the 13th Five-Year Plan (2015-2020) and "Healthy China 2030", the Group will seize opportunities that emerge through relevant investments and partnerships.

With 2019 set to be a year of both immense challenges and opportunities, the Group will take a decidedly cautious approach in developing its principal business interests. That does not, however, preclude the Group from taking action aimed at furthering its long-term growth. Leveraging its depth of experience, core competencies and sound fundamentals, the Group will make the necessary preparations for an eventual upturn.

## OTHER INFORMATION

### Dividends

The Board does not recommend the payment of a dividend for the year ended 31 December 2018 (2017: Nil).

### Purchase, Sale or Redemption of Listed Securities of the Company

There was no purchase, sale or redemption of the Company's listed securities by the Company or any of the subsidiaries during the year ended 31 December 2018.

### Events After Reporting Period

Up to the date of this announcement, there was no significant events relevant to the business or financial performance of the Group that come to the attention of the Directors since 31 December 2018.

### Code on Corporate Governance Practices

The corporate governance practices are based on the Corporate Governance Code and Corporate Governance Report (the "**Code**") as set out in Appendix 14 to the Listing Rules. Throughout the year ended 31 December 2018, the Company has applied the principles and complied with all the applicable code provisions set out in the Code, except for the deviation from code provision A.1.1 and A.2.1 of the Code as described below.

Under code provision A.1.1 of the Code, the Board should meet regularly and board meeting should be held at least four times a year at approximately quarterly intervals. During the Year, only two regular board meetings were held to review and discuss the annual and interim results. The Company does not announce its quarterly results and hence does not consider the holding of quarterly meetings as necessary and this is deviated from the code provision A.1.1 of the Code.

Under code provision A.2.1 of the Code, the roles of chairman and chief executive officer should be separated and should not be performed by the same individual. The Company does not have any officer with the title of "chief executive officer" and this is deviated from the code provision A.2.1 of the Code.

Mr. Gong Shaoxiang, who acts as the Chairman and an executive Director of the Company since 4 November 2015, is also responsible for overseeing the general operations of the Group. The Board will meet regularly to consider major matters affecting the operations of the Group. The Board considers that this structure will not impair the balance of power and authority between the Board and the management of the Group. The roles of the respective executive directors and senior management, who are in charge of different functions complement the role of the chairman and chief executive officer. The Board believes that this structure is conducive to strong and consistent leadership enabling the Group to operate efficiently.

The Company understands the importance to comply with the code provision A.2.1 and will continue to consider the feasibility to comply with the said code provision. If compliance with the said provision is determined, appropriate persons will be nominated to assume the different roles of chairman and chief executive officer.

**Compliance with the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code")**

The Company has adopted the Model Code as set out in Appendix 10 to the Listing Rules as the code of conduct for securities transactions carried out by the directors. All Directors, after specific enquiries by the Company, confirmed that they had complied with the required standard set out in the Model Code throughout the Year.

**Audit Committee and Review of Accounts**

The Audit Committee currently has three members comprising Mr. Wong Chun Hung (Chairman), Mr. Bao Jinqiao and Mr. Leung Pok Man, all being independent non-executive Directors. The primary duties of the Audit Committee are mainly to review and supervise the financial reporting process and internal control system of the Group.

There is no disagreement between the Board and the Audit Committee during the year. The annual results of the Company have been reviewed by the Audit Committee.

**Publication of Annual Report on the website of the Stock Exchange**

The annual report for the year ended 31 December 2018 containing all the information as required by the Listing Rules will be published on the websites of the Stock Exchange and the Company respectively and copies will be dispatched to shareholders of the Company in due course.

By Order of the Board
**CHINA HEALTHCARE ENTERPRISE GROUP LIMITED**
**Gong Shaoxiang**
*Chairman and Executive Director*

Hong Kong, 27 March 2019

*As at the date of this announcement, the Board comprises Mr. Gong Shaoxiang (Chairman), Mr. Lee Chi Hwa Joshua and Mr. Duan Chuanhong as executive Directors, Mr. Cao Yuyun as non-executive Director, Mr. Bao Jinqiao, Mr. Wong Chun Hung and Mr. Leung Pok Man as independent non-executive Directors.*