MINGYUAN MEDICARE DEVELOPMENT COMPANY LIMITED
銘源醫療發展有限公司*

(Incorporated in Bermuda with limited liability)

(Stock code: 0233)

ANNOUNCEMENT OF FINAL FINANCIAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2016

BACKGROUND

Trading in the shares of Mingyuan Medicare Development Company Limited (the "Company") has been suspended from trading on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") since 1 April 2015 as the Company failed to publish its audited financial statements for the financial year ended 31 December 2014 and onwards.

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

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

The board of directors of the Company (the "Board") herein announces the consolidated results of the Company and its subsidiaries (collectively the "Group") for the year ended 31 December 2016 (the "Year") based on the books and records made available to them, together with the comparative figures for the year ended 31 December 2015. Members of the Board make no representation as to the completeness of the information contained in this announcement.

Business Review

As at the date of this Announcement, the Board is still in the process of getting back the control over the Group's two key subsidiaries, Shanghai HealthDigit and SHMY Biochip, and is unable to access to their books and records. As a result, the balances relating to these two subsidiaries brought forward from 31 December 2013 were derecognized and the financial effects were charged to the consolidated statement of profit or loss and other comprehensive income for the year ended 31 December 2014 ("Derecognition"). Derecognition results loss of HK$804.5 million for the financial year 2014. After the Derecognition of the above subsidiaries, the Group only maintained Health Care Division which sells HPV DNA testing kits to female patients at hospital nationwide. The division recorded total sales of HK$52.1 million (2015: HK$59.67 million).

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

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

Corporate Governance Practices

Due to the substantial change in the composition of the board after the Annual General Meeting held on 20 May 2016 and the lack of information and/or documents available, the Board is unable to confirm whether the Company meets the code provisions set out in the Corporate Governance Code (the "CG Code") under Appendix 14 of the Listing Rule during the period from 1 January 2016 to 20 May 2016.

Based on the information and documents available to the Board, the Company has applied the principles and complied with all code provisions of the CG Code during the period commencing from 20 May 2016 to 31 December 2016 ("Reporting Period") except for the following deviations:–

Code Provisions	Comments by the Board
A 2.1 – Separate roles of chairman and chief executive not to be performed by the same individual – Division of responsibilities between the chairman and chief executive should be clearly established and set out in writing	Mr. Lam Ping Cheung was appointed as the Chairman of the Board on 20 May 2016. Whilst the Company was actively looking for experienced and high calibre candidates for the positions of Chief Executive Officer and the Chief Financial Officer of the Company, the Chairman met the management regularly to convey the decisions made by the Board in relation to the operation of the business. The Board had closely monitored the operation of the Company to ensure a balance of power and authority. Subsequent to the Reporting Period, the Board has appointed a Chief Executive Officer in charge of operations and business development of the Company and its subsidiaries with effect from 1 December 2017. Hence, the deviation from code provision A.2.1 of the CG Code has been resolved.
C 1.2 Management should provide all members of the board with monthly updates giving a balanced and understandable assessment of the company's performance, position and prospects in sufficient detail to enable the board as a whole and each director to discharge their duties	Due to the incomplete books and records, the management was unable to provide complete and accurate financial statements to the Board. However, the Company expected that regular financial updates will be provided once the management can ascertain the financial position of the Company based on the information and documents available to them.

Code Provisions	Comments by the Board
C 2.1 – 2.3	
2.1 The board should oversee the group's risk management and internal control systems on an ongoing basis, ensure that a review of the effectiveness of the company's and its subsidiaries' risk management and internal control systems has been conducted at least annually and report to shareholders that it has done so in its Corporate Governance Report. The review should cover all material controls, including financial, operational and compliance controls.	The Company does not have internal audit department to oversee the control procedures to perform the risk management functions. The Executive Directors are responsible for overseeing the internal control procedures. During the Reporting Period, the Independent Board Committee ("IBC") has been formed and the IBC had engaged FTI Consulting (Hong Kong) Limited ("FTI Consulting") to conduct internal control system review and to prepare a report on any significant internal control deficiencies.
2.2 The board's annual review should, in particular, ensure the adequacy of resources, staff qualifications and experience, training programmes and budget of the company's accounting, internal audit and financial reporting functions.	The report had been circulated to the Audit Committee for review and the recommended actions have been identified and taken into consideration by the Board for improvements. It has come to the attention to the Board that the risk management and systems of internal control were ineffective and insufficient in previous years and the Board has assumed the role to identify, evaluate and manage significant risks encountered by the Group on an ongoing basis. Shareholders may refer to the announcements dated 15 November 2018 and 11 February 2019 for details of the findings of the Internal Control Review and policies implemented in response by the management.
2.3 The board's annual review should, in particular, consider: (a) the changes, since the last annual review, in the nature and extent of significant risks, and the company's ability to respond to changes in its business and the external environment; (b) the scope and quality of management's ongoing monitoring of risks and of the internal control systems, and where applicable, the work of its internal audit function and other assurance providers; (c) the extent and frequency of communication of monitoring results to the board (or board committee(s)) which enables it to assess control of the company and the effectiveness of risk management; (d) significant control failings or weaknesses that have been identified during the period. Also, the extent to which they have resulted in unforeseen outcomes or contingencies that have had, could have had, or may in the future have, a material impact on the company's financial performance or condition; and (e) the effectiveness of the company's processes for financial reporting and Listing Rule compliance	
C2.5 The company should have an internal audit function. The company without an internal audit function should review the need for one on an annual basis and should disclose the reasons for the absence of such a function in the Corporate Governance Report	

Annual Results reviewed by the Audit Committee

The annual results have been reviewed by the Audit Committee.

Future Development

The Company has continued to carry on its principal business in manufacturing and trading of HPV chips and related equipment through Genetel Pharmaceuticals (Shenzhen) Company Limited in PRC.

Shareholders may refer to the announcements made by the Company on 10 August 2018, 15 November 2018, 11 February 2019 and 2 May 2019 respectively on the updates on trading suspension. The Company will endeavor to publish all outstanding financial results and demonstrate to the Stock Exchange that all the resumption conditions have been fulfilled and to the SFC that its concerns have been properly addressed.

EXTRACT OF INDEPENDENT AUDITOR'S REPORT

The section below sets out an extract of the independent auditor's report regarding the consolidated financial statements of the Group for the year ended 31 December 2016.

DISCLAIMER OF OPINION

We were engaged to audit the consolidated financial statements of Mingyuan Medicare Development Company Limited (the "Company") and its subsidiaries (together the "Group"), which comprise the consolidated statement of financial position as at 31 December 2016, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

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

BASIS FOR DISCLAIMER OF OPINION

As disclosed in note 2 to the consolidated financial statements, Deloitte Touche Tohmatsu, the predecessor auditor (the "Predecessor Auditor") of the Company reported to the then board of directors and audit committee their findings during a visit to a PRC bank to confirm a bank account with a balance of RMB420,245,000 (equivalent to HK$525,044,000) (the "Bank Account") as at 31 December 2014. The Predecessor Auditor was told by the bank staff that the Bank Account purportedly held by the Company's subsidiary namely SHMY HealthDigit Biochips Company Limited ("SHMY Biochip") belonged to an individual. The findings call into question the validity of the Bank Account and the underlying transactions.

An independent board committee (the "IBC") comprising two of the then independent non-executive directors of the Company was established to conduct an investigation into the matter. At the annual general meeting held on 20 May 2016, the 7 former directors were replaced by a new board of directors. From then on, under the board of directors of the Company (the "Board"), a new IBC was formed which then engaged an independent professional firm to conduct an independent forensic investigation. According to the findings of the investigation, the Board understood that SHMY Biochip entered into an agreement with a PRC company in Beijing (the "Beijing Company") on 23 December 2013 for the exchange of foreign currency whereby SHMY Biochip transferred RMB396 million (equivalent to HK$507,197,000) to the Beijing Company in return for the Beijing Company agreeing to exchange the sum into Hong Kong dollars within 3 months from the day of the agreement in Hong Kong. The Beijing Company failed to deliver the Hong Kong currency in Hong Kong but purportedly the whole amount of RMB396 million was recovered by SHMY Biochip in May and June in 2014. Subsequently, a sum of RMB420 million was withdrawn from a bank account but the details of the transfer were unknown. The investigation concluded that SHMY Biochip did not hold the Bank Account. Up to the date of approval of these consolidated financial statements, this matter remained outstanding as the Company was unable to gain access to the accounting books and records of SHMY Biochip and, therefore, the independent forensic investigation could not be continued.

In addition, the Board noted that the Company's hard drives in the computers in its Hong Kong office had been removed and its banking documents taken away as a result of which their computer records including details of all bank transactions were no longer accessible. A substantial part of the accounting and computer records of the Company and its subsidiaries is no longer accessible. The Company reported the matter to the Hong Kong Police. The Board further identified questionable transactions in the previous years as disclosed in note 2(f) to the consolidated financial statements.

Up to the date of approval of these consolidated financial statements, except for Genetel Pharmaceuticals (Shenzhen) Company Limited, the New Board was unable to take over the control of the Company's other subsidiaries in the PRC.

These events, together with other matters as set out in the following paragraphs, form the basis of our disclaimer of opinion:

1. Derecognition of Shanghai Subsidiaries

As disclosed in note 2(e) to the consolidated financial statements, pursuant to the resolution passed at the annual general meeting of the Company held on 20 May 2016, all the then directors (the "ex-directors") were either removed or retired from the board of the Company and the Company appointed seven new directors. From then on, the Board began to take over the control of the Company and its subsidiaries from the ex-directors. However, save for the equity interest owned by the Group and the removal of former directors and legal representatives and the appointment of new directors and legal representatives by way of shareholders' resolutions, the Board was unable to take control over the management and operations of SHMY Biochip and Shanghai HealthDigit Co., Limited and their subsidiaries (the "Shanghai Subsidiaries") notwithstanding the Board took actions against Mr. Yao Yuan and Mr. Iu Chung for the return of the company seals and business licenses of the Shanghai Subsidiaries. The Board was also unable to gain access to the premises, assets and books and records of the Shanghai Subsidiaries and to direct their relevant activities. Under these circumstances, the Board considered that the control over the Shanghai Subsidiaries was lost and therefore the financial performance and financial position of the Shanghai Subsidiaries were not consolidated into these consolidated financial statements. The Board also considered that the balances relating to the Shanghai Subsidiaries brought forward from 31 December 2013 should be derecognised and therefore the financial effects were charged to the consolidated statement of profit or loss and other comprehensive income for the year ended 31 December 2014. The Shanghai Subsidiaries were accounted for as available-for-sale investments as at 31 December 2016 and 2015.

In the absence of sufficient appropriate audit evidence, we were unable to ascertain whether it was appropriate to continue to derecognise the Shanghai Subsidiaries from the consolidated financial statements for the years ended 31 December 2016 and 2015. The derecognition of the financial position and results of the Shanghai Subsidiaries in the consolidated financial statements is a departure from the requirements of Hong Kong Financial Reporting Standard 10 "Consolidated Financial Statements". Due to the absence of the books and records of the Shanghai Subsidiaries, we were unable to quantify the financial effects arising from the departure from Hong Kong Financial Reporting Standard 10 "Consolidated Financial Statements".

In addition, we were unable to obtain sufficient appropriate audit evidence to determine whether it was appropriate to account for the Shanghai Subsidiaries as available-for-sale investments and as to whether the carrying values of the investments in the Shanghai Subsidiaries was free from material misstatement. Any adjustments that might have been found to be necessary would have a consequential significant effect on the Group's net liabilities as at 31 December 2016 and the Group's financial performance and cash flows for the year then ended and the related classification and disclosures in the consolidated financial statements.

2. Opening balances and corresponding figures

The corresponding figures disclosed in the consolidated financial statements are based on the audited consolidated financial statements of the Group for the year ended 31 December 2015. The auditor did not express an opinion on the consolidated financial statements for the year ended 31 December 2015.

As disclosed in note 2 to the consolidated financial statements, the Board identified irregularities in the previous years' financial statements and the Securities and Futures Commission suggested that the bank statements and bank transfer documents provided by the Company were forged. The Securities and Futures Commission also concerned that the Company's annual results announcement and annual report for the year ended 31 December 2013 and the interim results and interim report for the six months ended 30 June 2014 had contained materially false, incomplete or misleading information and, as the Board was unable to gain access to the books and records of the Shanghai Subsidiaries and substantial part of accounting and computer records of the Company and its subsidiaries was no longer accessible, the Board believed that it was not practical, if not impossible, to verify the financial information as reported in the consolidated financial statements of the Group for the year ended 31 December 2015 and past years. Accordingly, the comparative financial information disclosed in these consolidated financial statements may contain errors and omissions and has not been adjusted or reclassified and therefore may not be comparable with the figures for the current year.

The consolidated financial statements for the year ended 31 December 2015 therefore might not comply with the Hong Kong Financial Reporting Standards, or the disclosure requirements of the Hong Kong Companies Ordinance and the Rules Governing the Listing of Securities of The Stock Exchange of Hong Kong Limited.

As a result, in performing our audit of the consolidated financial statements of the Group for the year ended 31 December 2016, we were unable to obtain sufficient appropriate audit evidence to satisfy ourselves as to whether the opening balances of assets, liabilities and reserves as at 1 January 2016 and the corresponding figures were fairly stated.

Any adjustments found to be necessary in respect thereof had we obtained sufficient appropriate audit evidence would have had a consequential effect on the net assets of the Group as at 1 January 2016, and of its financial performance and cash flows for the current and prior years, and the related disclosures thereof in the consolidated financial statements.

3. Revenue

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

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

In the absence of sufficient appropriate audit evidence, we were unable to ascertain whether the recognition of sales invoice amounts to the End Users as revenue was appropriate and the existence and accuracy of the revenue of HK$52,132,000 for the year ended 31 December 2016.

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

As detailed in note 18 to the consolidated financial statements, the intangible assets were brought forward from previous years. The intangible assets represented technical know–how held and used by Genetel Shenzhen. The Board was unable to locate the purchase agreements nor valuation reports at the date of the acquisition of these technical know-how. There were no other documents to support the costs and the carrying amount of these intangible assets. In this connection, the Board was unable to ascertain the accuracy of the cost and carrying amount of the intangible assets of HK$7,875,000 as at 31 December 2016 nor the amortisation of HK$3,791,000 charged to the consolidated statement of profit or loss and other comprehensive income for the year ended 31 December 2016.

The Board carried out an impairment assessment on the cash generating unit of the manufacture and trading of HPV detection products and related equipment. As a result of the assessment, no impairment loss nor reversal of impairment loss was made for the year ended 31 December 2016. The recoverable amount of the cash generating unit has been determined by the Board based on value in use calculations. In preparing cash flow projections for the cash generating unit, the Board used certain bases and assumptions and the historical performance of Genetel Shenzhen. Given the facts that the revenue, trade receivables, technical services fees and other items of Genetel Shenzhen were qualified, we were unable to obtain sufficient appropriate audit evidence to ascertain the reasonableness of the assumptions and bases upon which the Board has employed in determining the recoverable amounts of the cash generating unit. There were no alternative audit procedures that we could perform to satisfy ourselves as to the carrying amount of the intangible assets of HK$7,875,000 and property, plant and equipment of HK$1,072,000 as at 31 December 2016 or whether any impairment loss or reversal of impairment loss for the year ended 31 December 2016 was necessary. Any adjustments to the carrying amounts of intangible assets and property, plant and equipment found to be necessary would affect the Group's net liabilities as at 31 December 2016, the Group's financial performance for the year then ended and the related disclosures in the consolidated financial statements.

5. Investments in a joint venture

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

The interest in 天津紅鬃馬 was held by the Shanghai Subsidiaries. Given that the Board was unable to take over the control of the Shanghai Subsidiaries, the Board was unable to obtain the books and records of 天津紅鬃馬. Therefore, the Group has not equity accounted for the financial statements of the joint venture for the years ended 31 December 2016 and 2015. In the absence of the relevant books and records, we were unable to obtain sufficient appropriate audit evidence to ascertain whether it was appropriate to derecognise the interest in a joint venture and not to equity account for the joint venture in the consolidated financial statements.

6. Investments in an associate

As disclosed in note 36 to the consolidated financial statements, the Group held 30% equity interest in an associate namely 天津中新科炬生物製藥有限公司 ("NewScen Coast"), with a carrying amount of HK$58,754,000 as at 31 December 2013 which had been derecognised since 1 January 2014.

According to the information obtained, the 30% interest in NewScen Coast was held by the Shanghai Subsidiaries. Given that the Board was unable to take over the control of the Shanghai Subsidiaries, the new management was unable to obtain the books and records of NewScen Coast and therefore the Group has not equity accounted for the financial statements of the associate for the year ended 31 December 2015. In addition, the Board noted that the Group was no longer the registered owner of the 30% interest in NewScen Coast in 2015. The new registered owners of the 30% interest in NewScen Coast were several individuals. The Board was unable to explain why the Group lost its 30% interest in NewScen Coast.

In the absence of the relevant books and records, we were unable to obtain sufficient appropriate audit evidence to ascertain whether it was appropriate to derecognise the interest in an associate and not to equity account for the associate in the consolidated financial statements.

7. Loan receivable and loan interest income

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

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

The Board was also unable to verify if the Individual hold 21% shareholding interest in the Company. In addition, up to the date of approval of the consolidated financial statements, no settlement was made by the Individual for the loan of HK$82,500,000 nor accrued interest receivable of HK$1,238,000. Therefore, the amount of loan and interest receivable of HK$83,738,000 was fully impaired during the year ended 31 December 2014. The Board was also unable to confirm if the loan of HK$118,000,000 brought forward from 2013 and the related loan interest income of HK$3,510,000 for the year ended 31 December 2014 was actually received by SHMY Biochip.

In the absence of sufficient appropriate audit evidence, we were unable to ascertain the existence and accuracy of the loan receivable of HK$82,500,000 and the related interest receivable of HK$1,238,000 and the impairment loss of HK$83,738,000 as at 31 December 2016 and 2015.

8. Trade receivables

As mentioned in paragraph 3, we were unable to ascertain the existence and accuracy of the revenue for the year ended 31 December 2016 and whether the recognition of sales invoice amounts to the End Users as revenue was appropriate. The trade receivables of HK$13,863,000 as at 31 December 2016 as stated in note 22 to the consolidated financial statements were arising from these revenue. No satisfactory confirmation replies were obtained from the End Users in relation to the outstanding trade receivables. Because of these scope limitations, there were no alternative audit procedures that we could perform to satisfy ourselves as to the existence, accuracy and valuation of the Group's trade receivables of HK$13,863,000 as at 31 December 2016 and the impairment loss on trade receivables of HK$485,000 charged to the consolidated statement of profit or loss and other comprehensive income for the year ended 31 December 2016. Consequently, we were unable to determine whether any adjustment to these amounts and disclosures was necessary.

9. Other receivables

As disclosed in note 22(c) to the consolidated financial statements, there were other receivables of RMB3,008,000 (equivalent to HK$3,359,000), brought forward from 2013 which had been outstanding in the books of Genetel Shenzhen for several years. The Board noted that there were no documentary evidence to confirm the nature and existence of these other receivables. At the same time, there were certain long outstanding receipts in advance of RMB2,242,000 (equivalent to HK$2,504,000) due to the same parties brought forward from 2013. The Board set off these other receivables with receipts in advance in 2014 and the net balance of HK$957,000 was charged to the consolidated statement of profit or loss and other comprehensive income for the year ended 31 December 2014 as an impairment loss on other receivables.

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

10. Other payables

As disclosed in note 24(e) to the consolidated financial statements, there was an amount of RMB3,209,000 (equivalent to HK$3,584,000) due to 香港港龍科技有限公司 in the books of Genetel Shenzhen. The Board noted that the amount was brought forward from previous years and there was no sufficient information to confirm the nature of this amount. In addition, according to the available information, there was no company registered in the name of 香港港龍科技有限公司 either in the PRC or Hong Kong.

In the absence of appropriate supporting documents, we were unable to obtain sufficient appropriate audit evidence to ascertain the nature, existence and accuracy of the amount of HK$3,584,000 as included in the other payables as at 31 December 2016.

11. Receipts in advance

As disclosed in notes 24 and 24(b) to the consolidated financial statements, there were receipts in advance of HK$3,159,000 as at 31 December 2016 which represented the payments received from the distributors upon delivery of goods to the End Users as mentioned in paragraph 3 above. In the absence of the sufficient documentary evidence, we were unable to verify whether the recognition of the payments received from the distributors as liabilities is appropriate and as to the accuracy of the outstanding balances as at 31 December 2016.

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

As disclosed in notes 13, 26 and 27 to the consolidated financial statements, the Group recorded income tax expense of HK$2,331,000 for the year ended 31 December 2016 and income tax payable of HK$3,596,000 and deferred tax liabilities of HK$3,534,000 as at 31 December 2016. We were unable to obtain sufficient appropriate audit evidence regarding the revenue and certain expenses as mentioned in paragraphs 3 and 13 and note 26 to the consolidated financial statements and the books and records were incomplete. As a consequence, we were unable to obtain sufficient appropriate audit evidence for us to verify the related taxes payable.

There were no other practical alternative audit procedures that we could perform to satisfy ourselves as to the completeness and accuracy of the income tax expense of HK$2,331,000 recorded in the consolidated statement of profit or loss and other comprehensive income for the year ended 31 December 2016 and the income tax payable of HK$3,596,000 and deferred tax liabilities of HK$3,534,000 as at 31 December 2016.

13. Technical service fees

As disclosed in note 12 to the consolidated financial statements, there were technical service fees of HK$18,999,000 payable to the distributors as included in the administrative expenses for the year ended 31 December 2016. No sufficient documentary evidence were made available for us to ascertain the nature of the actual technical services provided by the distributors. Certain technical service fees of HK$15,850,000 were supported by invoices issued by third parties unrelated to the provision of the technical services.

In the absence of sufficient appropriate audit evidence, we were unable to ascertain the completeness, existence and accuracy of the technical service fees of HK$18,999,000 for the year ended 31 December 2016 and the outstanding technical service fees payable of HK$5,995,000 as at 31 December 2016 as stated in note 24 to the consolidated financial statements.

14. Payments made to an ex-director and ex-company secretary

As disclosed in note 32(c)(iii) to the consolidated financial statements, there were certain payments of HK$1,924,000 made to Mr. Yao Yuan, the ex-director of the Company and HK$233,000 made to Mr. Wong Kwan Pui, the ex-company secretary of the Company, by Genetel Shenzhen which were included in the administrative expenses for the year ended 31 December 2016. There were no supporting documents to substantiate the purpose, substance and nature of these payments. The Board advised that these payments were approved by the ex-directors of the Company who had left the Company.

In the absence of sufficient appropriate audit evidence, we were unable to ascertain the purpose, substance and nature of these payments and there were no other satisfactory audit procedures that we could adopt to satisfy ourselves that the payments made to an ex-director and ex-company secretary recognised as administrative expenses were properly accounted for and disclosed.

15. Write back of an amount due to an ex-director

As disclosed in note 10 to the consolidated financial statements, the write back of an amount due to an ex-director Mr. Chien Hoe Yong, Henry of HK$3,478,000 in 2014 included an amount of HK$3,047,000 credited to the current account with the ex-director without any supporting documents made in 2014. The ex-director took legal actions against the Company for a total claim of HK$41,347,000 plus interest. In view of the fact that the case was dismissed in October 2016, the Board was of the opinion that the amount payable to the ex-director as recorded in the books of the Company should be written back to the consolidated statement of profit or loss and other comprehensive income for the year ended in 31 December 2014.

In the absence of sufficient appropriate audit evidence, we were unable to ascertain the nature and accuracy of the amount of HK$3,478,000 and whether the write back of the amount due to an ex-director as other income was appropriate and recognised in the proper accounting period.

16. Subcontracting services provided by SHMY Biochip

As disclosed in note 32(c)(iv) to the consolidated financial statements, Genetel Shenzhen received subcontracting services provided by SHMY Biochip for the production of HPV detection products during the year ended 31 December 2016. However, no subcontracting fees were recognized in these consolidated financial statements as Genetel Shenzhen did not receive any invoices from SHMY Biochip. The Board noted that there were no other documents to ascertain whether or not SHMY Biochip should charge the subcontracting services.

In the absence of sufficient appropriate audit evidence, we were unable to ascertain whether any recognition of and accruals for subcontracting fees was necessary for the year ended 31 December 2016.

17. Impairment loss on amount due from a Shanghai Subsidiary

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

In the absence of supporting documents, we were unable to obtain sufficient appropriate audit evidence to ascertain the purpose, nature and substance of the advance to 湖州數康生物科技有限公司 and the impairment loss on amount due from a Shanghai Subsidiary of HK$2,233,000 charged to the consolidated statement of profit or loss and other comprehensive income for the year ended 31 December 2016.

18. Litigations and contingent liabilities

As disclosed in note 37 to the consolidated financial statements, the Group, its joint venture and ex-directors of the Company were involved in a number of litigations in the PRC. Given the fact that the Board was unable to take over the control of the Shanghai Subsidiaries and gain access to their books and records, the Board was unable to ascertain the accuracy or completeness of the disclosure regarding the litigations and contingent liabilities of the Group for the year ended 31 December 2016 and the subsequent period up to the date of approval of these consolidated financial statements.

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

19. Directors' and chief executive's and employees' emoluments and amounts due to ex-directors

As disclosed in note 14 the consolidated financial statements, there were directors' emoluments of HK$846,000 and employees' emoluments of HK$851,000 for the year ended 31 December 2016 for ex-directors and an ex-employee respectively. As a substantial part of the accounting records is no longer accessible and the ex-directors and ex-employee had left the Company, the Board was unable to locate documentary evidence to verify the accuracy and payments of the directors' emoluments and employees' emoluments.

As disclosed in note 32 (a) to the consolidated financial statements, there were amounts due to ex-directors of HK$3,223,000 as at 31 December 2016. The Board noted that the amounts were mainly comprised of accrued directors' emoluments for the ex-directors. Up to the date of approval of these consolidated financial statements, the amounts remained outstanding. As the ex-directors had left the Company, the Board was unable to locate documentary evidence to verify the accuracy of the outstanding balances as at 31 December 2016.

In the absence of sufficient appropriate audit evidence, we were unable to ascertain the existence, accuracy and completeness of an amount of HK$846,000 as included in the directors' emoluments of HK$1,660,000 and an amount of HK$851,000 as included in the employees' emoluments of HK$4,324,000 for the year ended 31 December 2016 as disclosed in note 14 to the consolidated financial statements and the amounts due to ex-directors of HK$3,223,000 as at 31 December 2016 as disclosed in note 32(a) to the consolidated financial statements.

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

As disclosed in note 2(e) to the consolidated financial statements, the Board began to take over the control of the Company and its subsidiaries from 20 May 2016. As the Board was not appointed until 20 May 2016, the Board could not ensure whether the accounting books and records of the Group had been properly maintained for the years ended 31 December 2015 and 2016. Together with the facts that the consolidated financial statements were prepared based on incomplete books and records, the Board was also unable to confirm that the consolidated financial statements comply with HKFRSs, or that the disclosure requirements of the Hong Kong Companies Ordinance and the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited have been complied with.

Accordingly, we have been unable to obtain written representations from the Board that the accounting records were properly maintained, the consolidated financial statements complied with HKFRSs, the disclosure requirements of the Hong Kong Companies Ordinance and the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited throughout the two years ended 31 December 2015 and 2016.

The lack of written representations as mentioned above from the Board has called into question the reliability of the financial and other information and documents provided by the management that undermined our ability to rely on the Group's system of internal control to safeguard the proper maintenance of accounting records and documentation. Given these circumstances, there were no practicable audit procedures that we could perform to satisfy ourselves that the information and documents presented to us for the purpose of our audit are complete and accurate in all material respects, or to quantify the extent of adjustments that might be necessary in respect of the Group's consolidated financial statements for the year ended 31 December 2016, including the corresponding figures and the opening balances as at 1 January 2016.

21. Amounts due from subsidiaries

As at 31 December 2016, included in the statement of financial position of the Company as disclosed in note 34 to the consolidated financial statements are amounts due from subsidiaries of HK$146,200,000. Due to the scope limitations as detailed in paragraphs 1 to 20 above, we have not been able to satisfy ourselves as to the fairness of the amounts carried as amounts due from subsidiaries in the statement of financial position of the Company or to determine whether any provision for impairment loss is necessary as at 31 December 2016. Any adjustments that might have been found to be necessary in respect of the above would have a consequential effect on the net assets of the Company as at 31 December 2016.

Material uncertainties relating to the going concern

We draw attention to note 2(g) to the consolidated financial statements which indicated that the Group had net current liabilities of HK$12,991,000 and net liabilities of HK$9,024,000 as at 31 December 2016 and incurred a loss of HK$15,566,000 for the year ended 31 December 2016 and based on management accounts, the Group was still operating at a loss up to the date of approval of these consolidated financial statements. The Group's ability to continue as a going concern is dependent on the ongoing availability of finance to the Group, including financial support from a substantial shareholder who is also the Chairman and a director of the Company. If the finance is not available, the Group would be unable to meet its financial obligations as and when they fall due. These conditions, along with other matters as set forth in note 2(g) to the consolidated financial statements, indicate the existence of a material uncertainty which may cast significant doubt about the Group's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

DIRECTORS' VIEW ON AUDITORS' BASIS FOR DISCLAIMER OF OPINION

In relation to the missing fund of RMB420 million

The findings of the Forensic Investigation Report are well acknowledged by the Board. The Board will endeavor to take all necessary actions to recover the said missing fund of RMB420 million if and after the Company has regained access to and control of the Shanghai Subsidiaries.

1. Derecognition of Shanghai Subsidiaries

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

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

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

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

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

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

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

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

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

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

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

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

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

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

2. Opening balances and corresponding figures

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

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

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

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

3. Revenue

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

b) On the basis of a comprehensive presentation made by the management of both the Company as well as Genetel Shenzhen, the Board has been aware of the fact that Genetel Shenzhen's current business model has been adopted since the Company's take over from 2009 and has been in full compliance with local PRC law and tax regulations. The Board is also aware of the fact that prior to the change of legal representatives of Genetel Shenzhen in mid 2018, the former management of Genetel Shenzhen has failed to provide sufficient supporting documents of the inter-related transactions in relation to all sales, technical service fees and receipts in advance inter-related transactions, thus leading to the auditors' disclaimer opinion under paragraph 3 on "Revenue", under paragraph 11 on "Receipts in advance" and under paragraph 13 on "Technical service fees".

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

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

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

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

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

5. Investments in a joint venture

The joint venture was held by the Shanghai Subsidiaries. As stated in paragraph 1, the Group lost control over the Shanghai Subsidiaries, therefore, the Group was also unable to gain access to the books and records of the joint venture for accounting purpose.

6. Investments in an associate

The associate was held by the Shanghai Subsidiaries. As stated in paragraph 1, the Group lost control over the Shanghai Subsidiaries, therefore, the Group was also unable to gain access to the books and records of the associate for accounting purpose.

7. Loan receivable and loan interest income

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

8. Trade receivables

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

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

9. Other receivables

After the Board took control of the Company, it was noted that there were other receivables in the sum of HK$3,359,000 brought forward from 2013 which had been outstanding in the books of Genetel Shenzhen for many years. The staff members concerned had left long ago and limited information was kept about these receivables. The Board will use reasonable endeavor to contact the relevant party(ies) to chase for the same in order to clear off the said receivables.

10. Other payables

It was noted that there were other payables in an amount of HK$3,584,000 due to a company called "香港港龍科技有限公司" recorded in the books of Genetel Shenzhen. The new management noted that the staff members concerned had left and no information was available to show why Genetel Shenzhen owed the said amount to such company. After conducting the company searches in Hong Kong and the PRC, there was no record in relation to such company. The Board will seek an advice from the PRC lawyer in relation to such amount, if necessary.

11. Receipts in advance

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

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

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

In relation to the lack of information regarding the Shanghai Subsidiaries, the Board repeated its view under paragraph 1 above.

13. Technical service fees

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

14. Payments made to an ex-director and an ex-company secretary

The Board had no information to ascertain the purpose, substance and nature of the payments made to Mr. Yao Yuan, an ex-director and Mr. Wong Kwan Pui, an ex-company secretary and had therefore tried to make enquiry with Mr. Yao and Mr. Wong respectively. Up to the date of this report, the Company is unable to obtain any response from Mr. Yao and Mr. Wong. The Board will keep shareholders informed on the progress from time to time.

15. Write back of an amount due to an ex-director

As the legal proceedings commenced by Mr Chien in HCA1837/2014 was dismissed with no order as costs on 27 October 2016, the Board considered that Mr Chien had no merit nor any justification to claim the Company at the outset. Therefore, the Company did not owe Mr Chien the alleged amount back in 2014 and considered the write back of the alleged amount appropriate.

16. Subcontracting services provided by SHMY Biochip

As described in details under paragraph 1 above, the Board acknowledged that the Company is still unable to get access to the accounting books and records of SHMY Biochip and hence the Company did not have sufficient supporting documents to ascertain such transaction. The management will closely monitor and follow up on this as soon as the Company is able to gain access to the accounting books and records of SHMY Biochip.

17. Impairment loss on amount due from a Shanghai Subsidiary

Same as described in details under paragraph 1 above, the Board acknowledged that the Company is still unable to gain access to the accounting books and records of 湖州數康生物科技有限公司, being also one of the Company's Shanghai Subsidiaries, which owed Genetel Shenzhen HK$2,233,000 as at 31 December 2016. Since the Company did not have sufficient supporting documents to ascertain the nature of this transaction taken place during 2016 and the recoverability of such amount, the Board has concurred with the management's suggestion to make full impairment on this amount due from 湖州數康生物科技有限公司.

18. Litigations and contingent liabilities

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

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

19. Directors' and chief executive's and employees' emoluments and amounts due to ex-directors

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

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

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

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

21. Amounts due from subsidiaries

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

By Order of the Board
Mingyuan Medicare Development Company Limited
LAM Ping Cheung
Chairman

Hong Kong, 21 June 2019

As at the date of this announcement, the Board comprises (i) Mr. Lam Ping Cheung and Mr. Hui Yip Wing as executive Directors and (ii) Ms. Chan Mee Sze, Mr. Lam Suk Ping, Ms. Fan Stephanie Winnie and Mr. Cheung Chi Ming as independent non-executive Directors.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2016

	Note	**2016**	2015
		HK$'000	*HK$'000*
Revenue	*8*	**52,132**	59,670
Cost of sales		**(11,664)**	(12,263)
Gross profit		**40,468**	47,407
Other income		**561**	22
Other net loss		**(244)**	(203)
Distribution and selling expenses		**(5,875)**	(4,134)
Administrative expenses		**(42,984)**	(44,728)
Other expenses		**(2,240)**	(3,905)
Impairment loss on trade receivables		**(485)**	(114)
Write-off of amount due from an ex-company secretary		**–**	(59)
Impairment loss on amount due from a Shanghai Subsidiary		**(2,233)**	–
Loss of cash in hand		**(76)**	–
Unreconciled balances of intra group current accounts		**–**	(8)
Finance costs		**(127)**	–
Loss before tax	*12*	**(13,235)**	(5,722)
Income tax expense	*13*	**(2,331)**	(1,667)

	Note	2016 ***HK$'000***	2015 *HK$'000*
Loss for the year attributable to owners of the Company		**(15,566)**	(7,389)
Other comprehensive loss			
Exchange differences arising on translation of a foreign subsidiary (that may be reclassified subsequently to profit or loss)		**(995)**	(604)
Other comprehensive loss for the year, net of nil tax		**(995)**	(604)
Total comprehensive loss for the year attributable to owners of the Company		**(16,561)**	(7,993)
LOSS PER SHARE			
Basic	*16*	**(0.36) HK cents**	(0.17) HK cents
Diluted	*16*	**(0.36) HK cents**	(0.17) HK cents

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2016

	Note	**2016**	2015
		HK$'000	*HK$'000*
Non-current assets			
Property, plant and equipment		**1,072**	1,441
Intangible assets		**7,875**	12,295
Deposit for acquisition of plant and equipment		**1,585**	1,129
Available-for-sale investments		**–**	–
		10,532	14,865
Current assets			
Inventories		**3,813**	4,297
Loan receivable		**–**	–
Trade and other receivables, deposits and prepayments		**15,119**	19,236
Bank balances and cash		**10,568**	7,005
		29,500	30,538
Current liabilities			
Trade and other payables		**29,440**	(30,105)
Amount due to a related company		**980**	–
Amounts due to ex-directors		**3,223**	1,976
Loan from a director		**3,069**	–
Amounts due to shareholders		**1,463**	–
Other borrowings		**720**	–
Income tax payable	*26*	**3,596**	1,487
		42,491	33,568

	Note	**2016**	2015
		HK$'000	*HK$'000*
Net current liabilities		**(12,991)**	(3,030)
Total assets less current liabilities		**(2,459)**	11,835
Non-current liabilities			
Other borrowings		**3,031**	–
Deferred tax liabilities	*27*	**3,534**	4,298
		6,565	4,298
Net (liabilities)/assets		**(9,024)**	7,537
Capital and reserves			
Share capital		**219,195**	219,195
Reserves		**(228,219)**	(211,658)
Total (deficit)/equity attributable to owners of the Company		**(9,024)**	7,537

2. BASIS OF PRESENTATION

a) Suspension of trading in shares of the Company

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

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

b) Comparative information

The comparative figures disclosed in the consolidated financial statements are based on the audited consolidated financial statements for the year ended 31 December 2015. The auditor did not express an opinion on the consolidated financial statements for the year ended 31 December 2015. In addition, in view of (i) the findings of the SFC as set out in note 2(a) above, (ii) the issues as set out in notes 2(d), 2(e) and 2(f) below which relating to the consolidated financial statements of the Group for the previous years and (iii) incomplete books and records, the board of directors of the Company since 20 May 2016 (the "Board") believed that it was not practical, if not impossible, to verify the financial information as reported in the consolidated financial statements of the Group for the year ended 31 December 2015 and past years. The Board was of the view that the comparative financial information disclosed in these consolidated financial statements may contain errors and omissions and not be reliable. The consolidated financial statements for the year ended 31 December 2015 therefore might not comply with the Hong Kong Financial Reporting Standards, or the disclosure requirements of the Hong Kong Companies Ordinance and the Rules Governing the Listing of Securities of The Stock Exchange of Hong Kong Limited. The comparative financial information has not been adjusted or reclassified and therefore may not be comparable and any adjustments to the opening balances as at 1 January 2016 would have a significant consequential effect on the financial performance of the Group for the year ended 31 December 2016 and/or the financial position of the Group as at 31 December 2016.

c) Removal of a director Mr. Zhao Chao

Since the end of December 2014, the Group was unable to contact Mr. Zhao Chao ("Mr. Zhao"), a former executive director of the Company who was responsible for overseeing the operation of the medical centres management division of the Group. On 2 March 2015, Mr. Zhao had been arrested by the People's Procuratorate of Binhai New Area, Tianjin (天津市濱海新區人民檢察院) (the "PPT") in relation to a bribery criminal charge. Mr. Zhao was further detained by the PPT on a detention order dated 16 March 2015 on corruption charges. A bail order dated 14 April 2015 was issued to Mr. Zhao pending trial. On 5 June 2015, Mr. Zhao was removed as director by the board of directors for reasons of Mr. Zhao's failure of reporting his detention and arrest by the PPT on bribery and corruption related charges. On 9 June 2015, the Company and the ex-directors namely Mr. Yao Yuan ("Mr. Yao"), Mr. Yu Ti Jun, Mr. Yao Liang and Mr. Yang Chun Bao received an originating summons issued by the Court of the First Instance of the High Court of Hong Kong (the "High Court") pursuant to which Mr. Zhao sought the removal of him from his office as executive director be set aside and the reinstatement of Mr. Zhao as executive director. On 22 March 2016, the High Court issued a judgment pursuant to which the application from Mr. Zhao was dismissed. Mr. Zhao was the legal representative of 天津紅鬃馬醫院投資管理有限公司, a joint venture of the Group which was derecognised since 1 January 2014.

d) Unresolved Matter identified by the predecessor auditor

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

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

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

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

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

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

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

On 12 August 2016, HD Global Limited removed the former directors and legal representative of SHMY Biochip and appointed new directors and a legal representative by way of a shareholders' resolution. However, the Board is still unable to gain access to the premises of SHMY Biochip. In early November 2016, the Company issued civil claims against Mr. Yao Yuan, being the registered legal representative of SHMY Biochip for the return of the company seals and business licenses of SHMY Biochip. The Company lost the lawsuit and the appeal against such judgement was unsuccessful. The Company under the advice of its PRC lawyer, reported the loss of the company seals and business licenses and to apply for the issuance of new company seals and business licenses of SHMY. Although the Group was able to obtain agreement from Mr. Yao Yuan to cooperate to change the legal representative of Genetel Shenzhen from Mr. Yao Yuan

to a person nominated by the Board in May 2018, the Board was unable to obtain the signature from Mr. Yao Yuan to change the legal representative of SHMY Biochip. On 28 February 2018, Chairman Mr. Lam Ping Cheung, on behalf of the Company, wrote to the Liaison Office of the Central People's Government in the Hong Kong Special Administrative Region (the "Liaison Office") to seek the Liaison Office's assistance in re-gaining control of SHMY Biochip. From March 2018 to October 2018, officers of the Shanghai Administration for Industry & Commerce ("SHAIC") had several meetings with the Company's PRC lawyer concerning the registration of change of legal representative, the reported loss of the business licenses and company seals and the re-issuance of the same. The PRC lawyer had fulfilled the relevant requirements as informed by an official of the Registration Division of Foreign Invested Enterprises of SHAIC. Prior to the re-issuance of the business licenses and company seals, some staff members of SHMY Biochip had informed SHAIC that the business licenses and company seals were in their possession. As such, SHAIC was unable to treat the business licenses and company seals as loss properties and to re-issue the same to the new management. Having considered further advice from the PRC lawyer, the Company decided to apply for retrial of the civil claims against Mr. Yao Yuan for the recovery of the business licenses and company seals. As at the date of approval of these consolidated financial statements, Mr. Yao Yuan remained the registered legal representative of SHMY Biochip. In these circumstances, the Board was unable to take control over the management and operations of SHMY Biochip and its subsidiary.

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

On 12 August 2016, HD Global Limited removed the former directors and legal representative of Shanghai HealthDigit and appointed new directors and a legal representative by way of a shareholders' resolution. However, the Board is still unable to gain access to the premises of Shanghai HealthDigit. In early November 2016, the Company issued civil claims against Mr. Iu Chung ("Mr. Iu"), being the registered legal representative of Shanghai HealthDigit for the return of the company seals and business licenses of Shanghai HealthDigit. The Shanghai Xu Hui People's Court ruled in favour of Shanghai HealthDigit and Mr. Iu is ordered to surrender the company seals and the business licenses within 10 days from the date when the judgment takes effect (that is, 8 March 2018). The Company was later informed by its lawyer in the PRC that Mr. Iu filed an appeal in respect of the judgment made by the Shanghai Xu Hui People's Court. On 30 August 2018, the appeal was successful and the appeal court revoked the judgment made by lower court. On 28 February 2018, Chairman Mr. Lam Ping Cheung, on behalf of the Company, wrote to the Liaison Office of the Central People's Government in the Hong Kong Special Administrative Region to seek the Liaison Office's assistance in re-gaining control of Shanghai HealthDigit. From March 2018 to October 2018, officers

of SHAIC had several meetings with the Company's PRC lawyer concerning the registration of change of legal representative, the reported loss of the business licenses and company seals and the re-issuance of the same. The PRC lawyer had fulfilled the relevant requirements as informed by an official of the Registration Division of Foreign Invested Enterprises of SHAIC. Prior to the re-issuance of the business licenses and company seals, some staff members of Shanghai HealthDigit had informed SHAIC that the business licenses and company seals were in their possession. As such, SHAIC was unable to treat the business licenses and company seals as loss properties and to re-issue the same to the new management. Having considered further advice from the PRC lawyer, the Company decided to apply for retrial of the civil claims against Mr. Iu Chung for the recovery of the business licenses and company seals. As at the date of approval of these consolidated financial statements, Mr. Iu Chung remained the registered legal representative of Shanghai HealthDigit. In addition, the Board was unable to gain access to the premises of Shanghai HealthDigit. In these circumstances, the Board was unable to take control over the management and operations of Shanghai HealthDigit.

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

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

The Board of the Company acknowledged that it is the responsibility of the directors to prepare consolidated financial statements that give a true and fair view in accordance with Hong Kong Financial Reporting Standards (the "HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"). However, prior to their appointment, the Company's hard drives in the computers in its Hong Kong office had been removed and its banking documents taken away, as a result of which its computer records including details of all bank transactions were no longer accessible. A substantial part of the accounting and computer records of the Company and its subsidiaries, which was contained in the hard drives, is also no longer accessible. The Company reported the matter to the Hong Kong police. The Board of the Company can only prepare the consolidated financial statements of the Company for the year ended 31 December 2016 based on the books and records made available to them. As the Board was not appointed until 20 May 2016, and the change of legal representative of Genetal Shenzhen from Mr. Yao Yuan to a person nominated by the Board and change of directors of Genetal Shenzhen were took place only in May 2018 the Board could not ensure whether the accounting books and records of the Group had been properly maintained for the years ended 31 December 2016 and 2015.

As a result, the consolidated financial statements for the year ended 31 December 2016 have been prepared based on incomplete records and since no financial information of the Shanghai Subsidiaries was made available, the financial performance and financial position of the Shanghai Subsidiaries were not consolidated into these consolidated financial statements. The Board considered that the balances relating to the Shanghai Subsidiaries brought forward from 31 December 2013 should be derecognised and therefore the financial effects were charged to the consolidated statement of profit or loss and other comprehensive income for the year ended 31 December 2014.

Any adjustments arising from the matters described above would have a consequential significant effect on the loss of the Group for the year ended 31 December 2016 and net liabilities of the Group as at 31 December 2016.

Due to the limited financial information available and, as most of the former key accounting personnel of the Group have left, the Board was unable to obtain sufficient documentary information to satisfy itself regarding the validity and completeness of the Group's books and records and the appropriateness of the treatment of various balances as included in the consolidated financial statements for the years ended 31 December 2016 and 2015.

As the consolidated financial statements have been prepared based on incomplete books and records, the Board is unable to represent that proper accounting books and records have been maintained for the years ended 31 December 2016 and 2015, or whether all transactions entered into by the Group for the years ended 31 December 2016 and 2015 have been properly reflected in the consolidated financial statements. The Board is also unable to represent as to the completeness, existence and accuracy of information contained in and the disclosures of the consolidated financial statements in accordance with the HKFRSs, the disclosure requirements of the Hong Kong Companies Ordinance and the Listing Rules.

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

f) Irregularities identified by the Board

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

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

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

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

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

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

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

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

(d) SHMY Biochip did not pay the debt to Xiong and Xiong commenced the civil complaint to enforce her alleged right under the Debt Convert-to-Shares Agreement. In the statement of civil complaint dated 18 May 2015 issued by Xiong, it was stated that SHMY Biochip only gave Xiong a confirmation of entitlement to 88,722,391 shares in the Company on 21 December 2011 (as opposed to the actual delivery of the shares). The balance of 154,748,333 shares had never been issued to Xiong.

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

Findings by the Board

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

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

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

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

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

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

ii) Disposal of Shanghai Weiyi Hospital Investment and Management Limited

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

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

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

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

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

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

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

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

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

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

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

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

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

Further findings by the Board

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

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

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

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

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

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

iii) Foreign Exchange Agreement

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

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

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

g) Going concern

During the year ended 31 December 2016, the Group incurred a loss of HK$15,566,000 (2015: HK$7,389,000) and had net current liabilities of HK$12,991,000 and net liabilities of HK$9,024,000 as at 31 December 2016. Based on management accounts, the Group was still operating at a loss up to the date of approval of these consolidated financial statements.

The major loan liabilities of the Group as at the date of approval of these consolidated financial statements included loans and loan interests payable to Mr. Lam Ping Cheung and Lam & Co. of HK$10,075,000 and loans and interests payable to Eastern Wealth Development Limited ("Eastern Wealth") of HK$27,292,000.

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

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

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

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

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

As of the date of approval of these consolidated financial statements, the outstanding loan and accrued interests amounted to HK$2,992,000 and HK$655,000 respectively. The remaining loan facility available for future use under the loan agreement amounted to HK$2,008,000.

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

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

As of the date of approval of these consolidated financial statements, the outstanding loan and accrued interests amounted to HK$6,000,000 and HK$428,000 respectively. The remaining loan facility available for future use under the loan agreement amounted to HK$34,000,000.

ii) Loan facilities from Eastern Wealth

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

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

As of the date of approval of these consolidated financial statements, the outstanding loan and accrued interests amounted to HK$15,000,000 and HK$2,880,000 respectively. The remaining loan facility available for future use under the first loan agreement amounted to HK$15,000,000.

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

As of the date of approval of these consolidated financial statements, the outstanding loan and accrued interests amounted to HK$9,000,000 and HK$412,000 respectively. There was no remaining loan facility available for future use under the second loan agreement.

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

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

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

In the current year, the Group has applied the following new and revised HKFRSs issued by the HKICPA.

Amendments to HKFRS 10, HKFRS 12 and HKAS 28	Investment Entities: Applying the Consolidation Exception
Amendments to HKFRS 11	Accounting for Acquisitions of Interests in Joint Operations
Amendments to HKAS 1	Disclosure Initiative
Amendments to HKAS 16 and HKAS 38	Clarification of Acceptable Methods of Depreciation and Amortisation
Amendments to HKAS 16 and HKAS 41	Agriculture: Bearer Plants
Amendments to HKFRSs	Annual Improvements to HKFRSs 2012-2014 Cycle

The impacts of the adoption of new and revised HKFRSs are described below:

a) Amendments to HKFRS 10, HKFRS 12 and HKAS 28 clarify that the exemption from preparing consolidated financial statements is available to a parent entity that is a subsidiary of an investment entity, even if the investment entity measures all its subsidiaries at fair value in accordance with HKFRS 10. The amendments also clarify that the requirement for an investment entity to consolidate a subsidiary, whose main purpose is to provide services and activities that are related to the investment activities of the investment entity parent, applies only to subsidiaries that are not investment entities themselves.

The application of these amendments has had no impact on the Group's consolidated financial statements as the Group is not an investment entity and does not have any holding company, subsidiary, associate or joint venture that qualifies as an investment entity.

b) HKFRS 11 provide guidance on how to account for the acquisition of a joint operation that constitutes a business as defined in HKFRS 3 Business Combinations. Specifically, the amendments state that the relevant principles on accounting for business combinations in HKFRS 3 and other standards (for example, HKAS 12 Income Taxes regarding the recognition of deferred taxes at the time of acquisition and HKAS 36 Impairment of Assets regarding impairment testing of a cash-generating unit to which goodwill on acquisition of a joint operation has been allocated) should be applied. The same requirements should be applied to the formation of a joint operation if and only if an existing business is contributed to the joint operation by one of the parties that participate in the joint operation.

A joint operator is also required to disclose the relevant information required by HKFRS 3 and other standards for business combinations.

The application of these amendments has had no impact on the Group's consolidated financial statements as the Group did not have any such transactions in the current year.

c) HKAS 1 clarify that an entity need not provide a specific disclosure required by an HKFRS if the information resulting from that disclosure is not material, and give guidance on the bases of aggregating and disaggregating information. However, the amendments reiterate that an entity should consider providing additional disclosures when compliance with the specific requirements in HKFRS is insufficient to enable users of financial statements to understand the impact of particular transactions, events and conditions on the entity's financial position and financial performance.

In addition, the amendments clarify that an entity's share of the other comprehensive income of associates and joint ventures accounted for using the equity method should be presented separately from those arising from the Group, and should be separated into the share of items that, in accordance with other HKFRSs: (i) will not be reclassified subsequently to profit or loss; and (ii) will be reclassified subsequently to profit or loss when specific conditions are met.

As regards the structure of the financial statements, the amendments provide examples of systematic ordering or grouping of the notes.

The application of these amendments has not resulted in any impact on the financial performance or financial position of the Group.

d) HKAS 16 Property, Plant and Equipment prohibit entities from using a revenue-based depreciation method for items of property, plant and equipment. The amendments to HKAS 38 Intangible Assets introduce a rebuttable presumption that revenue is not an appropriate basis for amortisation of an intangible asset. This presumption can only be rebutted in the following two limited circumstances:

i) when the intangible asset is expressed as a measure of revenue; or

ii) when it can be demonstrated that revenue and consumption of the economic benefits of the intangible asset are highly correlated.

In addition, the amendments also clarify that in choosing an appropriate amortization method an entity could determine the predominant limiting factor that is inherent in the intangible asset.

As the Group already uses the straight-line method for depreciation and amortisation for its property, plant and equipment, and intangible assets respectively, the application of these amendments has had no impact on the Group's consolidated financial statements.

e) HKAS 16 and HKAS 41 define a bearer plant and require biological assets that meet the definition of a bearer plant to be accounted for as property, plant and equipment in accordance with HKAS 16, instead of HKAS 41. The produce growing on bearer plants continues to be accounted for in accordance with HKAS 41.

The application of these amendments has had no impact on the Group's consolidated financial statements as the Group is not engaged in agricultural activities.

f) The Annual Improvements to HKFRSs 2012-2014 Cycle for the first time in the current year which include a number of amendments to various HKFRSs as summarised below.

The amendments to HKFRS 5 clarify when an entity reclassifies an asset (or disposal group) from held for sale to held for distribution to owners (or vice versa), such a change should be considered as a continuation of the original plan of disposal and hence requirements set out in HKFRS 5 regarding the change of sale plan do not apply. The amendments also clarifies the guidance for when held-for-distribution accounting is discontinued.

The amendments to HKFRS 7 provide additional guidance to clarify whether a servicing contract constitutes continuing involvement in a transferred asset for the purpose of the disclosures required in relation to transferred assets.

The amendments to HKAS 19 clarify that the rate used to discount post-employment benefit obligations should be determined by reference to market yields at the end of the reporting period on high quality corporate bonds. The assessment of the depth of a market for high quality corporate bonds should be at the currency level (i.e. the same currency as the benefits are to be paid). For currencies for which there is no deep market in such high quality corporate bonds, the market yields at the end of the reporting period on government bonds denominated in that currency should be used instead.

The application of these amendments has had no effect on the Group's consolidated financial statements.

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

HKFRS 9	Financial instruments[1]
HKFRS 15	Revenue from contracts with customers[1]
HKFRS 16	Leases[3]
HKFRS 17	Insurance contracts[7]
Amendments to HKFRS 2	Classification and measurement of share-based payment transaction[1]
Amendments to HKFRS 3	Definition of a business[6]
Amendments to HKAS 7	Disclosure initiative[2]
Amendments to HKAS 12	Recognition of deferred tax assets for unrealised losses[2]
HK (IFRIC) – Int. 22	Foreign currency transactions and advance consideration[1]
HK (IFRIC) – Int. 23	Uncertainty over income tax treatments[3]
Amendments to HKFRS 10 and HKAS 28	Sale and contribution of assets between an investor and its associate or joint venture[4]
Amendments to HKAS 1 and HKAS 8	Definition of Material[6]
Amendments to HKAS 19	Plan amendment, curtailment or settlement[3]
Amendments to HKAS 28	Long-term interests in associates and joint ventures[3]
Amendments to HKAS 40	Transfers of investment property[1]
Amendments to HKFRS 9	Prepayment features with negative compensation[3]
Amendments to HKFRSs	Annual improvements to HKFRSs 2014-2016 cycle[5]
Amendments to HKFRSs	Annual improvements to HKFRSs 2015-2017 cycle[3]

1 Effective for annual periods beginning on or after 1 January 2018.

2 Effective for annual periods beginning on or after 1 January 2017, with earlier application permitted.

3 Effective for annual periods beginning on or after 1 January 2019.

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

5 Effective for annual periods beginning on or after 1 January 2017 or 1 January 2018, as applicable.

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

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

HKFRS 16 Leases

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

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

As at 31 December 2016, the Group has non-cancellable operating lease commitments of HK$877,000, as disclosed in note 30. A preliminary assessment indicates that these arrangements will meet the definition of a lease under HKFRS 16, and hence the Group will recognise a right-of-use asset and a corresponding liability in respect of all the leases.

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

8. REVENUE

	2016	2015
	$'000	*HK$'000*
Sales from health care division	**52,132**	59,670

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

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

Notwithstanding the fact that no written agreements for sales were entered into between Genetel Shenzhen and the End Users, the Board considered that the End Users were customers of Genetel Shenzhen instead of the distributors, therefore, the sales invoices issued for the End Users were recognised as revenue by Genetel Shenzhen.

12. LOSS BEFORE TAX

	2016	2015
	HK$'000	*HK$'000*
Loss before tax has been arrived at after charging:		
Depreciation of property, plant and equipment	**365**	411
Amortisation of intangible assets (included in cost of sales)	**3,791**	4,007
Staff costs		
– directors' emoluments *(note 14(a))*	**1,660**	2,382
– other staff costs	**11,561**	10,729
– retirement benefits scheme contributions, excluding directors	**1,108**	1,034
	14,329	14,145
Auditors' remuneration		
– Audit services	**600**	550
– Other services	**27**	32
Cost of inventories recognised as expenses	**3,886**	4,644
Write-down of inventories	**459**	230
Research and development expenditure (included in other expenses)	**2,240**	3,905
Technical service fees *(Note)* (included in administrative expenses)	**18,999**	25,950

Note: Under the agreements with the distributors, the distributors were appointed to perform technical and ancillary services to the End Users. After making appropriate enquires, the Board observed that the technical service fees represented spending and costs incurred by distributors and their associates for the purposes of maintaining distribution channels and establishments; travelling and entertainments and potential client solicitation throughout the PRC; and the profit margin and commission paid to the distributors and their associates. Certain technical service fees of HK$15,850,000 (2015: HK$22,034,000) were supported by invoices issued by third parties unrelated to the provision of technical services.

13. INCOME TAX EXPENSE

	2016	2015
	HK$'000	*HK$'000*
PRC Enterprise Income Tax		
– Current year	**2,841**	2,414
Deferred tax *(note 27)*		
– Current year	**(510)**	(747)
Income tax expense	**2,331**	1,667

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

Under the Law of the People's Republic of China on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiary is 25%.

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

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

	2016	2015
	HK$'000	*HK$'000*
Loss before tax	**(13,235)**	(5,722)
Notional tax on loss before tax, calculated at the rates applicable to profits in the tax jurisdictions concerned	**(1,891)**	(771)
Tax effect of income not taxable for tax purpose	**(59)**	(592)
Tax effect of expenses not deductible for tax purpose	**4,307**	3,090
Tax effect of temporary differences not recognised	**(212)**	61
Income tax on concessionary rate	**(252)**	(376)
Tax effect of withholding tax on undistributed profits of the PRC subsidiary	**438**	255
Income tax expense for the year	**2,331**	1,667

15. DIVIDENDS

No dividend was paid or proposed during 2016 and 2015, nor has any dividend been proposed since the end of the reporting period.

16. LOSS PER SHARE

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

	2016	2015
	HK$'000	*HK$'000*
Loss		
Loss for the purposes of basic and diluted loss per share		
Loss for the year attributable to owners of the Company	**(15,566)**	(7,389)

	2016	2015
	'000	*'000*
Number of shares		
Weighted average number of ordinary shares for the purpose of calculation of basic and diluted loss per share	**4,383,893**	4,383,893

26. INCOME TAX PAYABLE

	2016	2015
	HK$'000	*HK$'000*
Balance as at 31 December	**3,596**	1,487

(a) The income tax payable as at 31 December 2016 and 2015 included income tax payable of RMB802,000 (equivalent to HK$895,000 and HK$957,000 as at 31 December 2016 and 2015 respectively) made on a marketing fee of RMB3,400,000 (equivalent to HK$4,250,000) in 2014. The Board noted that there was a marketing fee of RMB3,400,000 (equivalent to HK$4,250,000) recorded in the books of Genetel Shenzhen and marketing fee income of the same amount recorded in the books of HD Global, the intermediate holding company of Genetel Shenzhen in Hong Kong for the year ended 31 December 2014. However, the Board noted that there was no marketing services provided by HD Global to Genetel Shenzhen. The Board could not understand the purpose of recording such marketing fee and could not locate appropriate supporting documents to substantiate these accounting entries. In accordance with the PRC tax regulations, deduction of the marketing fee without provision of marketing services is not allowed. However, deduction of the marketing fee was claimed by Genetel Shenzhen for the PRC corporate income tax purpose in the local filing with the PRC tax authority. In addition, no withholding tax was paid in respect of this marketing fee. In this connection, the Board treated the marketing fee as a non-deductible item when determining the provision of income tax for the year ended 31 December 2014. The marketing fee has been eliminated upon preparing these consolidated financial statements.

(b) As disclosed in note 12 to the consolidated financial statements, certain technical service fees of HK$15,850,000 (2015: HK$22,034,000) for the year ended 31 December 2016 were supported by invoices issued by third parties unrelated to the provision of technical services. In accordance with the PRC tax regulations, the technical services without proper supporting invoices were not deductible for income tax purpose. After consultation with the PRC lawyer and tax consultant, the Board considered that it is appropriate to claim deduction of the technical service fees by Genetel Shenzhen for the PRC corporate income tax purpose in the local filling with the PRC tax authority.

27. DEFERRED TAX LIABILITIES

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

	Withholding tax on undistributed profits of the PRC subsidiaries	**Fair value adjustment on intangible assets from business combination**	**Total**
	HK$'000	*HK$'000*	*HK$'000*
At 1 January 2015	1,024	4,233	5,257
Charge/(credit) to profit or loss	255	(1,002)	(747)
Exchange adjustments	(55)	(157)	(212)
At 31 December 2015	1,224	3,074	4,298
At 1 January 2016	1,224	3,074	4,298
Charge/(credit) to profit or loss	438	(948)	(510)
Exchange adjustments	(97)	(157)	(254)
At 31 December 2016	1,565	1,969	3,534

As at 31 December 2016, the Group had unused tax losses of HK$65,348,000 (2015: HK$65,348,000) available for offset against future profits. No deferred tax asset has been recognised in respect of the unused tax losses due to the unpredictability of future profits streams. The losses will expire within five years.

Under the Law of the PRC on Enterprise Income Tax, withholding tax is imposed on dividends declared in respect of profits earned by the PRC subsidiaries from 1 January 2008 onwards. As at 31 December 2016 and 2015, deferred taxation has been provided for in full in respect of undistributed profits retained by the PRC entity.

37. LITIGATIONS AND CONTINGENT LIABILITIES

Based on the available information, the Board noted that the Group and its joint venture were involved in the following litigations and the other litigations subsequent to 31 December 2016 as disclosed in the note 38(a) to the consolidated financial statements. Given the loss of books and records, the Board's inability to take over the control of the Shanghai Subsidiaries, the inability of gaining access to the books and records of the Shanghai Subsidiaries and the inability to obtain the necessary relevant information or documents from the former management, the Board believes that it is not practical, if not impossible, to ascertain the accuracy or completeness of the disclosure of the litigations and contingent liabilities during the year ended 31 December 2016 and those as disclosed under events after the reporting period in note 38(a) to the consolidated financial statements. The Board was also unable to assess the potential financial impact of the litigations and contingent liabilities, if any, on these consolidated financial statements.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

38. EVENTS AFTER THE REPORTING PERIOD

a) Litigations against the Group

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

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

b) Financing obtained by the Group

i) Loan from Mr. Lam Ping Cheung

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

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

As of the date of approval of these consolidated financial statements, the outstanding loan and accrued interests amounted to HK$2,992,000 and HK$655,000 respectively. The remaining loan facility available for future use under the loan under the loan agreement amounted to HK$2,008,000.

ii) On 18 May 2018, the Company and LAM & Co. entered into a loan agreement pursuant to which LAM & Co. agreed to make available to the Company a credit facility of HK$40,000,000 for the ordinary course of business of the Group. The loan bears interest at 8% per annum which shall not be payable unless and until the term of maturity. All principal and unpaid interest shall be repayable within 3 months upon receiving written demand issued by LAM & Co.. However, LAM & Co. undertakes not to demand repayment of all outstanding principal and unpaid interest within 5 years from the date of the loan agreement.

As of the date of approval of these consolidated financial statements, the outstanding loan and accrued interests amounted to HK$6,000,000 and HK$428,000 respectively. The remaining loan facility available for future use under the loan under the loan agreement amounted to HK$34,000,000.

iii) On 27 September 2016 and on 23 August 2018, the Company and Eastern Wealth entered into two loan agreements pursuant to which Eastern Wealth agreed to make available to the Company credit facilities of HK$30,000,000 and HK$9,000,000, respectively making up a total credit facilities of HK$39,000,000 for a period of three years each. The loans bear interest at 10% per annum which shall not be payable unless and until the term of maturity. Eastern Wealth undertakes not to demand repayment of the loan and interest within 2 years from the respective date of the loan agreements. Subject to the undertaking of not demanding repayment in 2 years as aforesaid, the loans and interests shall be repayable by the Company within 3 months upon receiving written demand from Eastem Wealth.

On 18 May 2018, the Company and Eastern Wealth entered into a suppmentary agreement pursuant to which the term of the loan of HK$30,000,000 shall be further extended to 26 September 2020, and Eastern Wealth's undertaking of not demanding for repayment of loan and accrued interests thereon was extended to 26 September 2020. Please refer to note 2(g)(ii) for more details about these two loans.

As of the date of approval of these consolidated financial statements, the outstanding loan and accrued interests amounted to HK$24,000,000 and HK$3,292,000 respectively. The remaining loan facility available for future use under the loan agreements amounted to HK$15,000,000.