ANNUAL REPORT

2014

銘源醫療

MINGYUAN MEDICARE DEVELOPMENT COMPANY LIMITED

(INCORPORATED IN BERMUDA WITH LIMITED LIABILITY)

STOCK CODE : 00233

CORPORATE INFORMATION

BOARD OF DIRECTORS

The composition of the board of directors in 2014 is set out in the Director's Report on page 8.

Executive Directors

Mr. Lam Ping Cheung *(Chairman)*
Mr. Hui Yip Wing

Independent Non-Executive Directors

Ms. Chan Mee Sze
Mr. Lam Suk Ping
Mr. Cheung Chi Ming
Ms. Fan Stephanie Winnie

AUDIT COMMITTEE

Mr. Cheung Chi Ming *(Chairman)*
Ms. Chan Mee Sze
Mr. Lam Suk Ping

REMUNERATION COMMITTEE

Mr. Lam Suk Ping *(Chairman)*
Ms. Chan Mee Sze
Mr. Cheung Chi Ming

NOMINATION COMMITTEE

Mr. Lam Ping Cheung *(Chairman)*
Ms. Chan Mee Sze
Mr. Cheung Chi Ming

AUTHORISED REPRESENTATIVES

Mr. Lam Ping Cheung
Ms. Chan Mei Yuk

COMPANY SECRETARY

Ms. Chan Mei Yuk

AUDITOR

Crowe (HK) CPA Limited

LEGAL ADVISERS

Estera

PRINCIPAL BANKERS

The Hongkong and Shanghai Banking Corporation Limited

PRINCIPAL SHARE REGISTRAR

MUFG Fund Services (Bermuda) Limited
The Belvedere Building
69 Pitts Bay Road
Pembroke HM08
Bermuda

BRANCH SHARE REGISTRAR IN HONG KONG

Computershare Hong Kong Investors Services Limited
Shop 1712-1716, 17th Floor, Hopewell Centre,
183 Queen's Road East,
Wanchai, Hong Kong

REGISTERED OFFICE

Canon's Court, 22 Victoria Street,
Hamilton HM 12, Bermuda

PRINCIPAL PLACE OF BUSINESS

11th Floor, Shum Tower, 268 Des Voeux Road Central,
Sheung Wan, Hong Kong
Tel: (852) 3102 3201
Fax: (852) 3102 0905
Email: mingyuan@mingyuan-hk.com
Website: www.mymedicare.com.hk

PLACE OF SHARE LISTING

The Stock Exchange of Hong Kong Limited

STOCK CODES

The Stock Exchange of Hong Kong Limited: 233
Reuters: 233.HK
Bloomberg: 233 HK

DIRECTORS' REPORT

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 board of directors of the Company since 20 May 2016 is defined as the "Board" in this report.

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 herein presents its report together with the audited financial statements of the Company and its subsidiaries (collectively the "Group") for the year ended 31 December 2014 (the "Year") based on the books and records made available to them. Members of the Board make no representation as to the completeness of the information contained in this report.

PRINCIPAL ACTIVITIES

The Company is an investment holding company. Details of the principal activities of the subsidiaries of the Company as at 31 December 2014 are set out in note 41 to the financial statements.

FINANCIAL RESULTS AND DIVIDENDS

For the Year, the Group's turnover was approximately HK$45.2 million (2013: HK$404.2 million), representing a decrease of approximately 88.8% from the last financial year. The consolidated loss attributable to owners of the Company amounted to approximately HK$868.2 million (2013: HK$1,056.7 million) for the year. Loss per share was approximately HK19.80 cents as compared with loss per share of approximately HK24.1 cents for that of 2013. There will be no payment of dividend for the Year (2013: Nil).

BUSINESS REVIEW

As at the date of this report, 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 cannot access to their books and records. As a result, the Group cannot consolidate the results of these two subsidiaries and their related investments for the year ended 31 December 2014 into the Group ("Derecognition"). Derecognition results loss of HK$804.5 million for the Year.

After the Derecognition of the above subsidiaries, the Group only maintained Health Care Division which sells HPV DNA testing kits to hospital for early diagnostic screening of HPV to female patients. The division recorded total sales of HK$45.2 million for the Year (2013: HK$20.9 million).

MANAGEMENT DISCUSSION AND ANALYSIS

Up to 31 December 2013, the Group operated five business segments, namely the protein chips division ("PCD"), health care division ("HCD"), medical centres management ("MCM"), individualized target therapy division ("ITTD"), and bio-drugs division ("BDD").

However, as disclosed in note 2 and note 43 to the consolidated financial statements, the Board of the Company has been unable to gain access to the books and records of Shanghai Subsidiaries and no financial information of the Shanghai Subsidiaries were made available, the financial performance and the financial position of Shanghai Subsidiaries were not consolidated into group consolidated financial statements in 2014.

DIRECTORS' REPORT

Shanghai Subsidiaries operated the business segments of PCD, MCM, ITTD and BDD. While 2013 group financial statements included business segments of all 5 aforementioned business segments, 2014 consolidated financial statements are prepared mainly based upon the performance of HCD during the year of 2014.

FINANCIAL PERFORMANCE

The key financial figures of the Group for the year ended 31 December 2014 and 31 December 2013 are summarized as follows:

	2014	2013	Change
	HK$'000	HK$'000	%
Revenue	**45,243**	404,150	(88.81)
Gross profit	**34,283**	278,039	(87.67)
Gross profit percentage	**75.78%**	68.80%	6.98
Other income and gains	**8,704**	23,448	(62.88)
Distribution and selling expenses	**(4,579)**	(126,293)	(96.37)
Administrative expenses	**(41,507)**	(68,107)	(39.06)
Other expenses	**(3,320)**	(104,284)	(96.82)
Impairment losses on other intangible assets	**(23,820)**	(170,000)	(85.99)
Impairment loss on goodwill	**–**	(384,308)	N/A
Deposits and receivables written off	**–**	(507,197)	N/A
Share of profit of a joint venture	**–**	(33,859)	N/A
Share of loss of an associate	**–**	(11,828)	N/A
Finance costs	**–**	(12,453)	N/A
Net loss attributable to owners of the Company	**(868,182)**	(1,056,705)	(17.84)
Loss per share			
– Basic and diluted	**(19.80)HK cents**	(24.10)HK cents	(17.84)

Revenue

Revenue for the year ended 31 December 2014 was HK$45,243,000, representing a decrease of HK$358,907,000 or 88.81% as compared with HK$404,150,000 for the preceding year. The decrease was mainly due to the exclusion of sales from

(a) protein chips division

(b) Medical centres management

(c) Individualized target therapy division

(d) Bio-drugs division

The revenue for the Year represents an increment of HK$24,350,000 or 116.55% as compared with HK$20,893,000 for the HCD division of the preceding year.

Gross profit percentage

The Group recorded an increased gross profit percentage of 75.78% for the Year as compared with a gross profit percentage of 68.80% for the preceding year.

Other income and other gains and losses

Other income and gains for the Year was HK$8,704,000, representing a decrease of HK$14,744,000 as compared with HK$23,448,000 for the preceding year. The decrease was mainly due to less interest income from loan receivable, no government subsidy during 2014 and no gain on sale of intellectual property in 2014 compared to preceding year.

Distribution and selling expenses

Distribution and selling expenses for the Year was HK$4,579,000, representing a decrease of HK$121,714,000 or 96.37% as compared with HK$126,293,000 for the preceding year. The expenses incurred in 2014 represent mainly advertising expenses for HCD.

DIRECTORS' REPORT

Administrative expenses

Administrative expenses for the Year was HK$41,507,000, representing a decrease of HK$26,600,000 or 39.06% as compared with HK$68,107,000 for the preceding year. Major expenses include technical service fee, salaries and welfare expenses of HCD division.

Impairment losses on other intangible assets

Impairment losses on other intangible assets for the Year was HK$23,820,000, representing a decrease of HK$146,180,000 or 85.99% as compared with HK$170,000,000 for the preceding year. Please refer to notes 21a(ii) to the financial statements for further details.

Finance costs

There was no finance costs for 2014 because HCD had no borrowings from bank or other source in 2014.

Net loss attributable to owners of the Company

Net loss attributable to owners of the Company for the Year was HK$868,182,000 representing a decreased loss of HK$188,523,000 or 17.84% as compared with HK$ 1,056,705,000 for the preceding year.

Loss per share

Basic and diluted loss per share for the Year was 19.80 HK cents, representing a decrease loss per share of 4.30 HK cents or 17.84% as compared with 24.10 HK cents for the preceding year.

FINANCIAL RESOURCES, LIQUIDITY AND FOREIGN EXCHANGE EXPOSURES

The financial positions of the Group as at 31 December 2014 and 31 December 2013 are summarized as follows:

	31 December 2014 HK$'000	31 December 2013 HK$'000
Current assets	**26,257**	442,987
Including		
– bank balances and cash	**5,752**	49,726
– Pledged banks deposits	**–**	35,863
– trade and other receivables, deposits and prepayments	**16,580**	193,404
Current liabilities	**(23,956)**	(321,465)
Including		
– Bank borrowings	**–**	(208,834)
Current ratio (current assets/current liabilities)	**1.10**	1.38
Quick ratio (current assets less inventories/ current liabilities)	**0.93**	1.30
Total equity	**15,530**	1,238,929
Gearing ratio (bank borrowings/shareholders' equity)	**0%**	16.86%

Bank balances and cash decreased by HK$43,974,000 or 88.43% from HK$49,726,000 as at 31 December 2013 to HK$5,752,000 as at 31 December 2014. The decrease in bank balances and cash was mainly due to exclusion of bank balances of subsidiaries derecognised.

Trade and other receivables, deposits and prepayments decreased by HK$176,824,000 or 91.43% from HK$193,404,000 as at December 2013 to HK$16,580,000 as at 31 December 2014. The decrease in trade and other receivables was mainly due to exclusion of receivables and deposits balances of subsidiaries derecognised.

As at 31 December 2014, the current ratio was 1.10 (2013: 1.38) and the quick ratio was 0.93 (2013: 1.30).

DIRECTORS' REPORT

The Group's operations and transactions are principally located in the PRC. Other than bank balances and cash denominated in Hong Kong dollars or Renminbi, other assets and liabilities are mainly denominated in Renminbi. The Directors do not consider that there will be material fluctuations in the exchange rate of Renminbi against Hong Kong dollars, the reporting currency of the Group, in the foreseeable future, even though the steadily decrease in the exchange rate of Renminbi against Hong Kong dollars would result in a translation loss for the Group when the net assets of the Group's operating subsidiaries in the PRC are denominated in Renminbi. Although the Group currently does not have a foreign exchange currency hedging policy, it does and will continue to monitor the foreign exchange exposure closely, and will consider hedging if there is significant foreign currency exposure.

Gearing ratio

Gearing ratio of 2014 was 0% (2013: 16.86%) representing bank borrowings divided by total equity.

Key sources of estimation uncertainty, capital risk management and financial risk management are disclosed in notes 5 and 7 to the consolidated financial statements respectively. Save as disclosed herein, the Board cannot ascertain if there were any other material non-compliance with the relevant laws and regulations that have a significant impact on the Group's other businesses during the Year. In addition, the Board does not have sufficient information to report the Group's corporate governance for the Year. In order to ensure the business is conducted with fit and proper persons and entities, the Board values business/professional ethics as the key criterion in hiring employees and service providers. In future, the Company will also value social responsibilities in providing health care services and in dealing with its employees and vendors.

KEY TRANSACTIONS CONDUCTED BY THE GROUP DURING THE YEAR

Foreign Exchange Agreement

On 23 December 2013, SHMY Biochip entered into an agreement in writing (the "Foreign Exchange Agreement") by which it agreed to transfer RMB396 million (the "Payment") to Beijing Nong Long Investment Management Company Limited 北京農龍投資管理有限公司 ("BJ Nong Long"), and BJ Nong Long agreed in return to convert that sum into Hong Kong Dollars and to pay HK$507 million to SHMY Biochip. If for any reason BJ Nong Long was unable to effect the conversion on or before 22 March 2014, then the RMB396 million had to be returned to SHMY Biochip within 3 banking days. Based on the published annual report of the Company for the year ended 31 December 2013, the Group deposited RMB396 million pursuant to the treasury arrangement but BJ Nong Long had failed to deliver the Hong Kong currency in Hong Kong and no agreement had been reached as to the date of repayment of such sum. As such, the entire amount had been impaired during 2013. The Company later in an announcement dated 9 June 2014, "RECOVERY OF OTHER RECEIVABLE PREVIOUSLY WRITTEN OFF", stated that the full amount of RMB396 million was recovered on 9 June 2014.

Due to the limited books and records available and accessible by the Board, whether or not the Payment had been fully recovered as announced by the former directors on 9 June 2014 cannot be ascertained by the Board.

The Payment had raised the concern of the Listing Department of the Stock Exchange of Hong Kong Limited ("HKEx") and a hearing was conducted by the Listing Committee of HKEx into the conduct of the Company and its directors in respect of this transaction. The Listing Committee found that the Payment constituted a financial assistance by the Company to BJ Nong Long and it was a non-exempt transaction subject to requirements under Chapter 14 of the Listing Rules and it constituted a major transaction subject to the announcement requirement under Rule 13.34 and shareholder approval requirement under Rule 14.40 of the Listing Rules. The Payment was made without shareholders' approval and the Listing Committee concluded that the Company breached Rules 14.34 and 14.40 of the Listing Rules. The Company and six former directors of the Company were therefore publicly censured by the Stock Exchange on 28 September 2016. Details of the listing decision issued by the Stock Exchange can be downloaded from the Stock Exchange's website (http://www.hkexnews.hk/listedco/listconews/SEHK/2016/0928/LTN20160928385.PDF")

Missing Fund of RMB420 million

In 2015, during the course of audit procedures for preparing the audited results of the Group for the year ended 31 December 2014, Deloitte, the then auditors of the Company, attempted to but was unable to verify the bank balance of RMB420 million (the "Bank Balance") as of 31 December 2014 supposedly held in SHMY Biochip's name at the Agricultural Bank of China (the "Unresolved Matter"). Deloitte advised the former Board to establish an independent board committee ("IBC") to conduct independent forensic investigation for the Unresolved Matter but the former management of the Company failed to do so. Therefore, in the absence of any independent forensic investigation being performed, Deloitte tendered their resignation as auditors of the Company with effect from 21 December 2015.

DIRECTORS' REPORT

Following the appointment of new directors at the AGM held on 20 May 2016 to replace the former management, IBC has been formed and Control Risks Pacific Limited ("Control Risk"), an independent forensic accountant, has been engaged since 3 June 2016 to conduct a forensic investigation on the Unresolved Matter. Control Risk's initial findings on the missing Bank Balance of RMB420 million were announced by the Company on 29 August 2016 (http://www.hkexnews.hk/listedco/listconews/SEHK/2016/0829/LTN20160829581.pdf). As at the date of this report, the question of the Unresolved Matter remains outstanding as the investigation cannot move on without gaining access to the banking and accounting records of SHMY Biochip.

However, Control Risk had concluded that the Bank Balance, allegedly represented by a bank deposit certificate that was provided to Deloitte by the former management was a fake, hence the holding of the Bank Balance never existed.

SIGNIFICANT INVESTMENT

Based on the published information, available books and records to the Board, the Group did not have any significant investment during the Year.

FUTURE DEVELOPMENTS

Resumption of Trading

Trading in the shares of the Company (the "Shares") has been suspended since 1 April 2015 as disclosed hereinabove this report. In the letter issued by the Stock Exchange to the Company dated 14 July 2015, in which the Stock Exchange has imposed the following resumption conditions ("Resumption Conditions"):

1. conduct a forensic investigation on the Unresolved Matter, disclose the findings of the investigation, assess the impact on the Company's financial and operational positions, and take appropriate remedial actions;

2. publish all outstanding financial results under the Listing Rules and address any audit qualifications;

3. demonstrate that the Company has put in place adequate financial reporting procedures and internal control systems to meet its Listing Rules obligations; and

4. inform the market of all material information for the shareholders and the investors to appraise the Company and SHMY Biochip's position.

On 11 April 2019, the Stock Exchange issued a letter to the Company informing that the Stock Exchange has considered it appropriate to require the Company, as an additional resumption guidance, to demonstrate a sufficient level of operations or assets under Rule 13.24 of the Listing Rules to warrant the continued listing of the Company's shares.

The Company must also comply with the Listing Rules and all applicable laws and regulations in Hong Kong and its place of incorporation before resumption. The Stock Exchange may modify any of the above Resumption Conditions and/or impose further conditions if the situation changes.

On 23 October 2017, the Securities and Futures Commission ("SFC") has directed the HKEx to suspend all dealing in the shares of the Company from 9: 00 a.m. 23 October 2017 pursuant to Section 8(1) of the Securities and Futures (Stock Market Listing) Rules ("SMLR"). SFC has raised concerns about the Company's 2013 Annual Results/Annual Report and 2014 Interim Results/Interim Report and certain bank statements and bank transfer documents provided by the then management of the Company that had contained materially false, incomplete or misleading information.

The Company will seek legal advice and contemplating to make representations under Section 9(1) in response to SFC's directions.

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. A summary of the progress is as follows:–

1. In June 2016, the Company has appointed Control Risks as an independent forensic accountant to conduct forensic investigation on the bank balance of a subsidiary as of 31 December 2014 amounting to approximately RMB 420 million which the Company's former auditors was unable to verify (the "Unresolved Matter"). A preliminary report was published by Control Risks in August 2016 and it was concluded that the said bank balance of RMB 420 million was not legitimate (the "Control Risks Report"). Findings of the Control Risks Report have been disclosed by the Company in its announcement dated 29 August 2016. The Company is of the view that the relevant resumption condition has been fulfilled.

DIRECTORS' REPORT

2. The Company has engaged 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 major findings of the internal control report have been set out by the Company in its announcement dated 15 November 2018 and the relevant measures taken by the Company in response to the internal control deficiencies have been disclosed in its announcement dated 11 February 2019. The Company is of the view that the relevant resumption condition has been fulfilled.

3. The Company has been informing the market of all material information from time to time by way of announcements.

Upon the publication of all outstanding financial results of the Group, the Board will demonstrate to the Stock Exchange that all the resumption conditions have been fulfilled and to the SFC that its concerns have been properly addressed.

Legal Action against Deloitte

i) 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.

ii) On 29 September 2017, an indirectly wholly owned subsidiary commenced 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.

iii) 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.

Financial Support

The Company has also obtained facilities totaling HK$39 million from an independent third party on 27 September 2016 and 23 August 2018, of HK$5 million and of HK$40 million from the Chairman and Lam & Co. on 12 September 2016 and 18 May 2018 respectively. With their strong and continuous financial support, it is expected that the Group will be able to maintain its operation and its existing businesses. In addition, the Company is in the course of appraising potential business proposals with a view to expanding the Group's healthcare business. Hence, the current management believes that the Group shall have sufficient operations to maintain its listing status.

Control Over SHMY Biochip and Shanghai HealthDigit

The current management of the Company has been making vigorous attempt to take control of SHMY Biochip and Shanghai HealthDigit. Two civil actions against Yao Yuan and Iu Chung, being the current respective legal representatives of SHMY Biochip and Shanghai HealthDigit, for the return of the company seals and business licenses of SHMY Biochip and Shanghai HealthDigit in early November 2016. Shareholders may refer to the Company's announcement dated 1 December 2016, 10 October 2017, 20 October 2017, 31 October 2017 and 29 January 2018 for details of the two civil actions. 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. From March 2018 to October 2018, officers of 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 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 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 and Mr. Iu Chung for the recovery of the business licenses and company seals.

DIRECTORS' REPORT

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

As at 31 December 2014, the Group did not have any secured short-term borrowing (31 December 2013: HK$208,834,000). Gearing ratio of the Group as at 31 December 2014 is nil (31 December 2013: 0.176). This calculation is based on net borrowing mentioned above and shareholders' funds of approximately HK$15,530,000 (31 December 2013: approximately HK$1,184,439,000). Bank balances and cash amounted to approximately HK$5,752,000 (31 December 2013: approximately HK$49,726,000) and total assets were approximately HK$44,743,000 (31 December 2013: approximately HK$1,753,436,000). Net current assets of the Group on the same date amounted to approximately HK$2,301,000 (31 December 2013: approximately HK$121,522,000). As at 31 December 2014, inventories amounted to approximately HK$3,925,000, representing a decrease of approximately HK$20,706,000 when compared with the amount as at 31 December 2013. The Group had no material capital commitment as at 31 December 2014.

As at 31 December 2014, the issued share capital of the Company was 4,383,892,800 shares of HK$0.05 each.

PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Group during the Year are set out in note 18 to the consolidated financial statements.

SHARE CAPITAL

Details of the share capital of the Company are set out in note 35 to the consolidated financial statements.

RESERVES

Movements in reserves of the Group and the Company during the Year are set out in the statement of changes in equity on page 34 and note 42 to the consolidated financial statements respectively.

DIRECTORS

The directors of the Company during the Year were:

Executive Directors:

Mr. Yao Yuan *(Chairman)* (being removed on 20 May 2016)
Mr. Chien Hoe Yong, Henry *(CEO)* (resigned on 23 April 2014)
Mr. Zhao Chao (being removed on 5 June 2015)
Mr. Zhou Li Qun (resigned on 8 January 2015)

Non-executive Director:

Mr. Yu Ti Jun (being removed on 20 May 2016)

Independent non-executive Directors:

Mr. Hu Jin Hua (resigned on 24 April 2014)
Mr. Lee Sze Ho, Henry (retired on 12 June 2014)
Mr. Tang Yan Qin (resigned on 16 December 2014)
Mr. Chow Wing Kin (appointed on 24 April 2014 and not re-elected on 12 June 2014)
Dr. Lam, Lee G., (appointed on 12 September 2014 and resigned on 26 May 2015)
Mr. Yao Liang (appointed on 28 November 2014 and retired on 20 May 2016)
Mr. Yang Chun Bao (appointed on 12 September 2014 and retired on 20 May 2016)

DIRECTORS' REPORT

Since the AGM held on 20 May 2016, the composition of the board has been the following:

Executive Directors:

Mr. Lam Ping Cheung *(Chairman)* (appointed on 20 May 2016)
Mr. Hui Yip Wing (appointed on 20 May 2016)

Non-executive Director:

Dr. Wong Peter Kai-hong (appointed on 1 December 2017 and resigned on 31 October 2018)
Ms. Lam Yan Fong Flora (appointed on 20 May 2016 and retired on 18 August 2017)

Independent non-executive Directors:

Ms. Chan Mee Sze (appointed on 20 May 2016)
Mr. Lam Suk Ping (appointed on 20 May 2016)
Ms. Hui Wai Man, Shirley (appointed on 20 May 2016 and retired on 18 August 2017)
Mr. Wong Anthony Chi-ho (appointed on 20 May 2016 and resigned on 8 September 2017)
Mr. Cheung Chi Ming (appointed on 10 July 2017)
Ms. Fan Stephanie Winnie (appointed on 13 September 2017)

DIRECTORS' SERVICE CONTRACTS

None of the directors of the Company proposed for re-election at the forthcoming general meeting has a service contract which is not determinable by the Group within one year without payment of compensation, other than statutory compensation.

DIRECTORS' AND THE CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

The (i) register which shall be maintained by the Company pursuant to Section 352 of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) (the "SFO") and (ii) the notice(s) which shall be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies (the "Model Code") are not found and accessible by the Board. To the best knowledge of the Board, as at 31 December 2014, based on the public records shown in the website of the Stock Exchange, the interests of the directors and their associates in the shares, underlying shares and debentures of the Company, its subsidiaries and associated corporations were as follows.

Long positions in ordinary shares and underlying shares of the Company as at 31 December 2014:

Name of Shareholders	Capacity	Number of shares of the Company	Approximate percentage of shareholding (i)
Yao Yuan (ii)	Interest in controlled corporation	946,169,075	21.58%
Yao Yuan	Interests of any parties to an agreement to acquire interest in a particular listed corporation required to be disclosed under S.317(1)(a) and S.318	100,000,000	2.28%

Notes:

i. The approximate percentage of shareholding is based on the total number of ordinary Shares in issue of 4,383,892,800 Shares as at 31 December 2014.

ii. 946,169,075 Shares were held through Ming Yuan Investments Group Limited. Ming Yuan Investments Group Limited was 100% held by Ming Yuan Holdings Limited which in turn was 50% controlled by Mr. Iu Chung and 50% controlled by Mr. Yao Yuan, the former chairman of the Company.

To the best knowledge of the Board, other than disclosed above, none of the directors or their associates had any interests or short positions in any shares, underlying shares or debentures of the Company or any of its associated corporations as at 31 December 2014.

DIRECTORS' REPORT

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

To the best knowledge of the Board, at no time during the Year other than the interests disclosed above in respect of Mr. Yao Yuan were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any directors or their respective spouse or minor children, or were any such rights exercised by them, or was the Company or any of its subsidiaries a party to any arrangement(s) to enable the directors to acquire such rights in any other body corporate.

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

The register of substantial shareholders which shall be maintained by the Company pursuant to Section 336 of the SFO for the Year is not found and accessible by the Board. To the best knowledge of the Board, as at 31 December 2014, based on the public records shown in the website of the Stock Exchange, other than the interests disclosed above in respect of certain directors, the following shareholders had notified the Stock Exchange of relevant interests and short positions in the issued share capital of the Company.

Long positions in the ordinary shares

Name of Shareholders	Capacity	Number of shares of the Company	Approximate percentage of shareholding (i)
Iu Chung (ii) & (iii)	Beneficial owner	1,340,000	0.03%
Iu Chung (ii) & (iii)	Interest in controlled corporation	946,169,075	21.58%
Ming Yuan Holdings Limited (iii)	Interest in controlled corporation	946,169,075	21.58%
Ming Yuan Investments Group Limited (iii)	Beneficial owner	946,169,075	21.58%
ABM Nominees Limited	Custodian corporation/approved lending agent	648,259,075	14.79%
Nazareth Group Limited	Person having a security interest in shares	648,259,075	14.79%

Notes:

i. The approximate percentage of shareholding is based on the total number of ordinary Shares in issue of 4,383,892,800 Shares as at 31 December 2014.

ii. The total of 947,509,075 Shares representing the personal interest of 1,340,000 Shares held by Mr. Iu Chung and 946,169,075 Shares held through Ming Yuan Investments Group Limited.

iii. Ming Yuan Investments Group Limited was 100% held by Ming Yuan Holdings Limited which in turn was 50% controlled by Mr. Iu Chung and 50% controlled by Mr. Yao Yuan, the former chairman of the Company.

SHARE OPTION SCHEME

Based on the public information previously disclosed by the Company, the Company adopted the Share Option Scheme on 31 May 2004, pursuant to which the Directors were authorised to grant options to subscribe for Shares to any director or employee of the Company or its subsidiaries and other eligible persons specified therein during the ten-year period from 31 May 2004. As the ten-year period has expired on 31 May 2014, such Share Option Scheme was no longer valid and effective. The exercise period for the options granted (if any) under the expired Share Option Scheme has expired and therefore none of the options granted remained outstanding as at 31 December 2014. Details of the movements of the share options of the Company are set out in note 36 to the financial statements.

As at the date of this report, there is no option outstanding under the Company's Share Option Scheme (if any).

DIRECTORS' REPORT

CONVERTIBLE SECURITIES, OPTIONS OR OTHER SIMILAR RIGHTS

The Company has no outstanding convertible securities, options or similar rights in issue as at 31 December 2014.

BORROWINGS

To the best knowledge of the Board, the Group did not have any secured borrowing as at 31 December 2014.

INDEPENDENCE OF INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has received, from each of the current independent non-executive directors, namely Mr. Cheung Chi Ming, Mr. Lam Suk Ping, Ms. Fan Stephanie Winnie and Ms. Chan Mee Sze, a confirmation of his/her independence pursuant to Rule 3.13 of the Listing Rules. The Company considers all of the current independent non-executive directors are independent.

The Board does not have information to assess the independence of each of the former independent non-executive directors during the tenure of their services during the Year.

EMOLUMENT POLICY

The Board does not have any information in respect of the emolument policy of the former employees and the former directors of the Group for the Year.

Save for Mr. Cheung Chi Ming and Ms. Fan Stephanie Winnie whose emoluments were recommended by the Remuneration committee of the Company ("Remuneration Committee") and approved by the board of directors of the Company, the emoluments of all other directors, namely Mr. Lam Ping Cheung, Mr. Hui Yip Wing, Mr. Lam Suk Ping and Ms. Chan Mee Sze were approved by the shareholders' at the AGM held on 20 May 2016.

The current emolument policy of senior management and directors of the Group is set up by the Remuneration Committee on the basis of their merit, qualification and competence. The emoluments of directors of the Company are recommended by the Remuneration Committee, having regard to the Company's operating results, individual performance, time, commitment, duties and responsibilities, contribution to the Group, comparable market statistics and prevailing market practice and trends.

PRE-EMPTIVE RIGHTS

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

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the Year.

SUFFICIENCY OF PUBLIC FLOAT

Based on information that is publicly available to the Company and within the knowledge of the Directors as at the latest practicable date prior to the issue of this report, the Company has complied with the sufficiency of public float requirement under the Listing Rules.

AUDITORS

The consolidated financial statements for the years ended 31 December 2012 and 2013 were audited by Deloitte Touche Tohmatsu who resigned as auditor of the Company and its subsidiaries with effect from 21 December 2015.

On 26 July 2016, Crowe Horwath (HK) CPA Limited was appointed as new auditor of the Company and its subsidiaries to fill the casual vacancy following the resignation of Deloitte Touche Tohmatsu and to hold office until the conclusion of the next annual general meeting of the Company. Crowe Horwath (HK) CPA Limited has changed its name to Crowe (HK) CPA Limited ("Crowe"). Accordingly, the independent auditors report is now signed under the new name.

PLEDGE OF ASSETS

Details of pledge of assets are set out in note 39 to the consolidated financial statements.

LITIGATIONS AND CONTINGENT LIABILITIES

Details are set out in note 46 to the consolidated financial statements.

DIRECTORS' REPORT

SIGNIFICANT EVENTS AFTER THE REPORTING PERIOD

Details of the significant events after the reporting period of the Group are set out in note 47 to the consolidated financial statements.

REVIEW BY THE AUDIT COMMITTEE

The audited results of the Group for the Year have been reviewed by the audit committee of the Company ("Audit Committee"). The composition of the Audit Committee currently comprises of Mr. Cheung Chi Ming (Chairman), Mr. Lam Suk Ping and Ms. Chan Mee Sze. None of them was member of the Audit Committee during the Year and therefore none of them were involved in the internal control and risk management of the Group during the Year.

DELAY IN DESPATCH OF ANNUAL REPORT FOR THE YEAR ENDED 31 DECEMBER 2014

As a result of the former management's failure to establish an IBC to conduct an independent forensic investigation on the Unresolved Matter, the Company's then auditors Deloitte had resigned on 21 December 2015. The Company was unable to publish the Annual Results for years ended 2014 by 31 March 2015 and the 2014 Annual Report by 30 April 2015. The delay in the dispatch of the 2014 Annual Report constitutes a non-compliance of the Rule 13.46(2) of the Listing Rules by the Company.

NON-COMPLIANCE OF APPENDIX 16 "DISCLOSURE OF FINANCIAL INFORMATION" OF THE LISTING RULES

Due to the failure to access the books and records of the Company and certain subsidiaries, the Board does not have sufficient data to compile the annual report so as to comply with the Appendix 16 "Disclosure of financial information" to the Listing Rules. The following information has been omitted from this annual report:

1. Information on the Group's major suppliers and customers.

2. A statement in respect of connected transactions and continuing connected transactions with the connected person as defined in Chapter 14A (or Chapter 14 prior to the coming into force of Chapter 14A) of the Listing Rules.

3. A separate Corporate Governance Report containing the information as required under Appendix 14 to the Listing Rules.

4. Details of management contracts.

5. Details of contracts of significance between the Company and its directors, substantial shareholders and subsidiaries.

6. Details of business review.

7. An Environmental, Social and Governance (ESG) report as required under Appendix 16 of the Listing Rules.

CORPORATE GOVERNANCE

As all the members of the Board have been appointed as directors subsequent to the AGM held on 20 May 2016, the Board is unable to comment on whether the Company has complied with the Corporate Governance Code and Corporate Governance Report contained in Appendix 14 to the Listing Rules during the Year.

FIVE YEAR FINANCIAL SUMMARY

A summary of published results and assets and liabilities of the Group for the last five financial years, extracted from the audited consolidated financial statements of the Company, is set out on page 123. This summary does not form part of the audited financial statements.

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. Loss arising from 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:

DIRECTORS' REPORT

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

b. On 9 September 2016, the 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.

DIRECTORS' REPORT

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 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 comparative 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 reasons, 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 on 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".

DIRECTORS' REPORT

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 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. Other intangible assets, property, plant and equipment and impairment on other intangible assets 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. Inventories

The Board noted the fact that insufficient inventory records had been maintained by Genetel Shenzhen for certain period during the year of 2014 for auditors to perform inventory roll-back procedures. The former management had already maintained sufficient inventory records in the second half of 2014, therefore, there was no such audit qualification in 2015.

9. 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.

DIRECTORS' REPORT

10. Other receivables

After the Board took control of the Company, it was noted that there were other receivables in the sum of HK$3,759,000 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.

11. Other payables

It was noted that there were other payables in an amount of HK$4,010,000 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.

12. 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.

13. 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.

14. Technical service fee

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.

15. Payments made to ex-directors and Mr. Iu Chung

The Board had no information to ascertain the purpose, substance and nature of the payments made to Mr. Iu Chung and ex-directors, Mr. Yao Yuan, and Mr. Chien Hoe Yong, Henry, and had therefore tried to make enquiry with Mr. Yao. Up to the date of this report, the Company is unable to obtain any response from Mr. Yao. The Board will keep shareholders informed on the progress from time to time.

16. 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 to 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.

17. Impairment loss on amount due from an ex-director

The Board considered that the amount due from Mr. Chien Hoe Yong would not be recoverable and therefore, an impairment was made to the amount due from Mr. Chien. The Board could not identify the purpose, substance and the nature of the payment made to Mr. Chien and considered it not feasible to commence legal action against Mr. Chien for the recovery of such amount.

18. Impairment loss on amount due from a related company

The Board considered that the amount due from a related company would not be recoverable and therefore, an impairment was made to the amount due from 上海銘源實業. The Board noted that there was no documentation to confirm the nature and existence of the amount due from 上海銘源實業 and considered it not feasible to commence legal action against 上海銘源實業 for the recovery of such amount.

DIRECTORS' REPORT

19. Litigation 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.

20. Directors' and chief executive's and employees' emoluments

The Board noted the lack of information due to missing records in relation to the ex-directors' and ex-employees' emoluments. 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.

21. 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.

22. Unknown bank transactions

Due to missing documentations, the Board noted the lack of information to ascertain the purpose, nature and commercial substance of the bank transactions.

23. 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.

On behalf of the Board

Mr. Lam Ping Cheung
Chairman

Hong Kong, 6 June 2019

INDEPENDENT AUDITOR'S REPORT

國富浩華 (香港) 會計師事務所有限公司
Crowe (HK) CPA Limited
Member Crowe

9/F Leighton Centre,
77 Leighton Road,
Causeway Bay, Hong Kong

TO THE SHAREHOLDERS OF
MINGYUAN MEDICARE DEVELOPMENT COMPANY LIMITED
(Incorporated in Bermuda with limited liability)

We were engaged to audit the consolidated financial statements of Mingyuan Medicare Development Company Limited (the "Company") and its subsidiaries (together the "Group") set out on pages 30 to 122, which comprise the consolidated statement of financial position as at 31 December 2014, 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 a summary of significant accounting policies and other explanatory information.

Directors' responsibility for the consolidated financial statements

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

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. This report is made solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Except for the inability to obtain sufficient appropriate audit evidence as explained below, we conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement. Because of the matters described in the basis for disclaimer of opinion paragraphs, however, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.

INDEPENDENT AUDITOR'S REPORT

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 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 RMB396million (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 RMB396million 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 Biochips 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 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:

INDEPENDENT AUDITOR'S REPORT

Basis for disclaimer of opinion *(Continued)*

1. Derecognition of and loss arising from 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-sales investments as at 31 December 2014.

In the absence of sufficient appropriate audit evidence, we were unable to ascertain whether it was appropriate to derecognise the Shanghai Subsidiaries from the consolidated financial statements for the year ended 31 December 2014 and the correctness of the recognition of the loss arising from the Shanghai Subsidiaries of HK$804,506,000 in the consolidated statement of profit or loss and other comprehensive income for the year ended 31 December 2014. 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-sales 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 and the Company's net assets as at 31 December 2014 and the Group's results for the year then ended and the related classification and disclosures in the consolidated financial statements.

2. Opening balances and corresponding figures

The consolidated financial statements of the Group for the year ended 31 December 2013 were audited by another firm of auditors. 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 2013 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 on a basis consistent with that of the current year and therefore may not be comparable with the figures for the current year.

Basis for disclaimer of opinion *(Continued)*

2. Opening balances and corresponding figures *(Continued)*

The consolidated financial statements for the year ended 31 December 2013 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 2014, 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 2014 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 2014, and of its results 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(a) 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 certain 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 distributors (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 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 acknowledgment 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 amounts stated in 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$45,243,000 for the year ended 31 December 2014.

INDEPENDENT AUDITOR'S REPORT

Basis for disclaimer of opinion *(Continued)*

4. Other intangible assets, property, plant and equipment and impairment on other intangible assets and property, plant and equipment

As detailed in note 21 to the consolidated financial statements, there were other intangible assets with carrying amounts of HK$807,379,000 brought forward from 2013 of which HK$23,820,000 were fully impaired and HK$762,039,000 were derecognised upon derecognition of Shanghai Subsidiaries for the year ended 31 December 2014. After the amortisation of HK$4,082,000 and exchange adjustments of HK$504,000 for the year ended 31 December 2014, the carrying amount of the other intangible assets as at 31 December 2014 was HK$16,934,000. The other 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 other intangible assets. In this connection, the Board was unable to ascertain the accuracy of the cost and carrying amount of the other intangible assets of HK$16,934,000 as at 31 December 2014 nor the amortisation of HK$4,082,000 or the impairment loss on other intangible assets of HK$23,820,000 charged to the consolidated statement of profit or loss and other comprehensive income for the year ended 31 December 2014.

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 2014. 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 other intangible assets of HK$16,934,000 and property, plant and equipment of HK$1,552,000 as at 31 December 2014 or whether any impairment loss or reversal of impairment loss for the year ended 31 December 2014 is necessary. Any adjustments to the carrying amounts of other intangible assets and property, plant and equipment found to be necessary would affect the Group's net assets as at 31 December 2014, the Group's loss for the year then ended and the related disclosures in the consolidated financial statements.

5. Investments in a joint venture

As disclosed in note 22 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.

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 year ended 31 December 2014. 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.

INDEPENDENT AUDITOR'S REPORT

Basis for disclaimer of opinion *(Continued)*

6. Investments in an associate

As disclosed in note 23 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.

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 Board 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 2014. 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 26 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 held 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 2014, the loan receivable of HK$118,000,000 brought forward from 2013 and the total interest income of HK$4,748,000 recognised in the consolidated statement of profit or loss and other comprehensive income and whether the impairment loss on loan receivables of HK$83,738,000 charged to the consolidated statement of profit or loss and other comprehensive income for the year ended 31 December 2014 were appropriate.

INDEPENDENT AUDITOR'S REPORT

Basis for disclaimer of opinion *(Continued)*

8. Inventories

We were engaged to perform the audit of the consolidated financial statements of the Group for the year ended 31 December 2014 in May 2016, and we were therefore unable to attend the physical inventory counts conducted by Genetel Shenzhen as at 31 December 2014 and 31 December 2013. In the absence of sufficient inventory records maintained by Genetel Shenzhen for certain period during the year of 2014, we were unable to perform inventory roll-back procedures to verify the quantity and existence of inventories as at 1 January 2014.

There were no other practical alternative audit procedures that we could perform to satisfy ourselves as to the existence, valuation and completeness of the inventories of HK$2,864,000 as at 1 January 2014 held by Genetel Shenzhen and as to whether the valuation of the inventories was calculated in accordance with the Group's accounting policy and hence were unable to determine whether any adjustment to this amount was necessary. We were also unable to determine whether any adjustment might have been necessary in respect of the financial performance reported in the consolidated statement of profit or loss and other comprehensive income and the net cash flows from operating activities reported in the consolidated statement of cash flows of the Group for the year ended 31 December 2014.

9. 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 2014 and whether the recognition of sales invoice amounts to the End Users as revenue was appropriate. The trade receivables of HK$15,527,000 as at 31 December 2014 as stated in note 27 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$15,527,000 as at 31 December 2014 and the impairment loss on trade receivables of HK$322,000 charged to the consolidated statement of profit or loss and other comprehensive income for the year ended 31 December 2014. Consequently, we were unable to determine whether any adjustment to these amounts and disclosures was necessary.

10. Other receivables

As disclosed in note 27(c) to the consolidated financial statements, there were other receivables of HK$3,759,000 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 HK$2,802,000 due to the same parties brought forward from 2013. The Board set off these other receivables with receipts in advance and the net balance of HK$957,000 was charged to the consolidated statement of profit or loss and other comprehensive income 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 last year and the accuracy of the impairment loss on other receivables and whether the Group had the right to set off and the impairment loss on other receivable of HK$957,000 charged to consolidated statement of profit or loss and other comprehensive income was appropriately recognised in the proper accounting period.

INDEPENDENT AUDITOR'S REPORT

Basis for disclaimer of opinion *(Continued)*

11. Other payables

As disclosed in note 31(e) to the consolidated financial statements, there was an amount of HK$4,010,000 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$4,010,000 as included in the other payable as at 31 December 2014.

12. Receipts in advance

As disclosed in notes 31 and 31(b) to the consolidated financial statements, there were receipts in advance of HK$3,773,000 as at 31 December 2014 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 2014.

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

As disclosed in notes 14, 33 and 34 to the consolidated financial statements, the Group recorded income tax credit of HK$54,157,000 for the year ended 31 December 2014 and income tax payable of HK$358,000 and deferred tax liabilities of HK$5,257,000 as at 31 December 2014. The income tax credit mainly comprises of a write back of unreconciled deferred tax liabilities of HK$48,041,000 relating to the withholding tax on undistributed profits of the PRC subsidiaries and deferred tax credit of HK$6,975,000 in relation to the impairment loss and amortisation of other intangible assets which were subject to audit qualifications. In addition, we were unable to obtain sufficient appropriate audit evidence regarding the revenue and certain expenses as mentioned in paragraphs 3 and 14 and note 33 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 income tax payable and deferred tax liabilities.

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 credit of HK$54,157,000 recorded in the consolidated statement of profit or loss and other comprehensive income for the year ended 31 December 2014 and the income tax payable of HK$358,000 and deferred tax liabilities of HK$5,257,000 as at 31 December 2014.

14. Technical service fees

As stated in note 13 to the consolidated financial statements, there were technical service fees of HK$22,566,000 payable to the distributors as included in the administrative expenses for the year ended 31 December 2014 of which HK$4,294,000 were related to the sales transactions conducted and recognised in 2013. 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$14,486,000 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$22,566,000 for the year ended 31 December 2014 and the outstanding technical service fees payable of HK$10,297,000 as at 31 December 2014 as stated in note 31 to the consolidated financial statements.

INDEPENDENT AUDITOR'S REPORT

Basis for disclaimer of opinion *(Continued)*

15. Payments made to ex-directors and Mr. Iu Chung

As disclosed in note 40(c)(ii) to the consolidated financial statements, there were certain payments of HK$1,520,000 made to the ex-directors of the Company and HK$370,000 to Mr. Iu Chung by Genetel Shenzhen which were included in the administrative expenses for the year ended 31 December 2014. 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 the ex-directors and Mr. Iu Chung and recognised as administrative expenses were properly accounted for and disclosed.

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

As disclosed in note 10(a)(iii) 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 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 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.

17. Impairment loss on amount due from an ex-director

As stated in note 40(c)(iii) to the consolidated financial statements, the Board noted that there was an amount of HK$1,249,000 paid to an ex-director, Mr. Chien Hoe Yong, Henry prior to 2014. The amount was recorded in the current account with SHMY Biochip in previous years. The Board could not identify the purpose, substance and the nature of the payment made to Mr. Chien. However, the Board considered that the amount due from an ex-director should be separately classified from the current account with SHMY Biochip and therefore a reclassification has been made in the year ended 31 December 2014. The Board also considered that the amount due from Mr. Chien would not be recoverable, therefore, an impairment loss of HK$1,249,000 on the amount due from an ex-director has been made in the consolidated statement of profit or loss and other comprehensive income for the year ended 31 December 2014.

In the absence of sufficient appropriate audit evidence, we were unable to ascertain the substance and nature of the payment and there were no other satisfactory audit procedures that we could adopt to satisfy ourselves that the impairment loss of HK$1,249,000 on the amount due from an ex-director was properly accounted for and disclosed.

18. Impairment loss on amount due from a related company

As disclosed in note 40(c)(iv) to the consolidated financial statements, there was an amount of HK$1,015,000 due from 上海銘源實業 brought forward from 2013 in the books of Genetel Shenzhen. The Board noted that there was no documentation to confirm the nature and existence of the amount due from 上海銘源實業 and there was no subsequent settlement up to the date of approval of these consolidated financial statements. Therefore, the Board considered that the amount due from 上海銘源實業 could not be recovered. Therefore, an impairment loss of HK$1,015,000 was made on the amount due from a related company and charged to the consolidated statement of profit or loss and other comprehensive income for the year ended 31 December 2014.

In the absence of sufficient appropriate audit evidence, we were unable to ascertain the nature and existence of the amount due from 上海銘源實業 and whether the impairment loss on amount due from a related company of HK$1,015,000 charged to the consolidated statement of profit or loss and other comprehensive was appropriately recognized in the proper accounting period.

INDEPENDENT AUDITOR'S REPORT

Basis for disclaimer of opinion *(Continued)*

19. Litigations and contingent liabilities

As disclosed in notes 46 and 47 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 2014 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".

20. Directors' and chief executive's and employees' emoluments

As disclosed in note 15 to the consolidated financial statements, there were directors' emoluments of HK$2,919,000 and employees' emoluments of HK$1,336,000 for the year ended 31 December 2014 for the ex-directors and ex-employees respectively. As a substantial part of the accounting records is no longer accessible and the ex-directors and ex-employees 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.

In the absence of sufficient appropriate audit evidence, we were unable to ascertain the existence, accuracy and completeness of the directors' emoluments of HK$2,919,000 and an amount of HK$1,336,000 as included in the employees' emoluments of HK$2,782,000 for the year ended 31 December 2014 as disclosed in note 15 to the consolidated financial statements.

21. 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 2013 and 2014. 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 2013 and 2014.

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 2014, including the corresponding figures and the opening balances as at 1 January 2014.

INDEPENDENT AUDITOR'S REPORT

Basis for disclaimer of opinion *(Continued)*

22. Unknown bank transactions

As disclosed in note 30(b)(i) to the consolidated financial statements, the Board noted that there were two bank payments of US$1,400,000 (equivalent to HK$10,845,000) and US$1,239,000 (equivalent to HK$9,600,000) credited to a bank account (the "MY Bank Account") of a subsidiary namely, Ming Yuan Property Management Limited ("MY Property") on 31 March 2014 and 1 April 2014 respectively. The funds were made by two companies unknown to the Board. On 1 April 2014, there was a fund transfer of HK$20,000,000 from the MY Bank Account to a company which is also unknown to the Board. On 3 May 2014, there was a withdrawal of HK$400,000 in form of a cash cheque. All these transactions were recorded by MY Property in the current account with the Company and subsequently through the current account with Ming Yuan Investments Group Limited and finally transferred to the current account with SHMY Biochip. The Board was unable to find out the nature and purpose of these bank transactions nor the relationship of these parties with the Group.

In the absence of sufficient appropriate audit evidence, we were unable to ascertain the purpose, nature and commercial substance of the bank transactions and there were no other satisfactory audit procedures that we could adopt to satisfy ourselves that the recording of the above transactions in various current accounts were properly accounted for and disclosed.

23. Amounts due from subsidiaries

As at 31 December 2014, included in the statement of financial position of the Company as disclosed in note 42 to the consolidated financial statements are amounts due from subsidiaries of HK$146,518,000. Due to the scope limitations as detailed in paragraphs 1 to 22 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 2014. 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 2014.

Disclaimer of opinion

Because of the significance of the matters described in the basis for disclaimer of opinion paragraphs, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion. Accordingly, we do not express an opinion on the consolidated financial statements as to whether they give a true and fair view of the state of affairs of the Group as at 31 December 2014 and of the Group's loss and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and as to whether the consolidated financial statements have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

INDEPENDENT AUDITOR'S REPORT

Emphasis of matter

We draw attention to note 2(g) to the consolidated financial statements which indicates that the Group incurred a loss of HK$868,182,000 for the year ended 31 December 2014 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.

Other matter

The consolidated financial statements of the Group for the year ended 31 December 2013 were audited by another auditor who expressed an unmodified opinion on those statements on 31 March 2014.

Crowe (HK) CPA Limited
Certified Public Accountants
Hong Kong, 6 June 2019

Chan Wai Dune, Charles
Practising Certificate Number P00712

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2014

	Note	2014 HK$'000	2013 HK$'000
Revenue	8	**45,243**	404,150
Cost of sales		**(10,960)**	(126,111)
Gross profit		**34,283**	278,039
Other income	10(a)	**8,682**	13,356
Other gains and losses	10(b)	**22**	10,092
Distribution and selling expenses		**(4,579)**	(126,293)
Administrative expenses		**(41,507)**	(68,107)
Other expenses		**(3,320)**	(104,284)
Deposits paid for acquisition of intangible assets written off	11	**–**	(40,000)
Impairment loss on goodwill	20	**–**	(384,308)
Impairment loss on other intangible assets	21	**(23,820)**	(170,000)
Impairment loss on goodwill included in interest in associate	23	**–**	(20,310)
Impairment loss on loan receivable	26	**(83,738)**	–
Impairment loss on amount due from an ex-director	40(c)(iii)	**(1,249)**	–
Impairment loss on trade receivables	27(b)	**(322)**	–
Impairment loss on other receivables	27(c)	**(957)**	–
Impairment loss on amount due from a related company	40(c)(iv)	**(1,015)**	–
Loss arising from Shanghai Subsidiaries	43	**(804,506)**	–
Unreconciled balances of intragroup current accounts		**(313)**	–
Other receivable written off	2(f)(iii)	**–**	(507,197)
Amounts due from subsidiaries of a joint venture written off	40(a)(i)	**–**	(33,859)
Share of profit of a joint venture	22	**–**	274
Share of loss of an associate	23	**–**	(11,828)
Finance costs	12	**–**	(12,453)
Loss before tax	13	**(922,339)**	(1,176,878)
Income tax credit/(expense)	14	**54,157**	(11,264)
Loss for the year		**(868,182)**	(1,188,142)
Other comprehensive income			
Exchange differences arising on translation of a foreign subsidiary (that may be reclassified subsequently to profit or loss)		**(541)**	43,628
Reclassification adjustment for exchange reserves relating to derecognition of Shanghai Subsidiaries		**(300,186)**	–
Other comprehensive (loss)/income for the year, net of nil tax		**(300,727)**	43,628
Total comprehensive loss for the year, net of nil tax		**(1,168,909)**	(1,144,514)

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2014

	Note	2014 HK$'000	2013 HK$'000
Loss for the year attributable to			
Owners of the Company		**(868,182)**	(1,056,705)
Non-controlling interests		**–**	(131,437)
		(868,182)	(1,188,142)
Total comprehensive loss for the year attributable to:			
Owners of the Company		**(1,168,909)**	(1,017,107)
Non-controlling interests		**–**	(127,407)
		(1,168,909)	(1,144,514)
LOSS PER SHARE			
Basic	17	**(19.80) HK cents**	(24.10) HK cents
Diluted	17	**(19.80) HK cents**	(24.10) HK cents

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2014

	Note	2014 HK$'000	2013 HK$'000
Non-current assets			
Property, plant and equipment	18	**1,552**	337,123
Prepaid lease payments	19	**–**	43,283
Goodwill	20	**–**	47,115
Other intangible assets	21	**16,934**	807,379
Interest in a joint venture	22	**–**	14,765
Interest in an associate	23	**–**	58,754
Deposit paid for the acquisition of property, plant and equipment		**–**	2,030
Available-for-sale investments	24	**–**	–
		18,486	1,310,449
Current assets			
Inventories	25	**3,925**	24,631
Prepaid lease payments	19	**–**	1,060
Loan receivable	26	**–**	118,000
Trade and other receivables, deposits and prepayments	27	**16,580**	193,404
Amount due from a director	28	**–**	640
Amounts due from related parties	29	**–**	18,942
Amounts due from subsidiaries of a joint venture	40(a)	**–**	721
Pledged bank deposits	30(a)	**–**	35,863
Bank balances and cash	30(b)	**5,752**	49,726
		26,257	442,987
Current liabilities			
Trade and other payables	31	**23,598**	72,158
Amount due to a related company	40(a)	**–**	2,930
Amount due to a subsidiary of a joint venture	40(a)	**–**	10,519
Bank borrowings	32	**–**	208,834
Income tax payable	33	**358**	27,024
		23,956	321,465
Net current assets		**2,301**	121,522
Total assets less current liabilities		**20,787**	1,431,971

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2014

	Note	2014 HK$'000	2013 HK$'000
Non-current liabilities			
Deferred tax liabilities	34	5,257	193,042
Net assets		15,530	1,238,929
Capital and reserves			
Share capital	35	219,195	219,195
Reserves		(203,665)	965,244
Equity attributable to owners of the Company		15,530	1,184,439
Non-controlling interests		–	54,490
Total equity		15,530	1,238,929

The consolidated financial statements on pages 30 to 122 were approved and authorised for issue by the Board of Directors on 6 June 2019 and are signed on its behalf by

Lam Ping Cheung
DIRECTOR

Hui Yip Wing
DIRECTOR

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2014

	Attributable to owners of the Company									
	Share capital HK$'000	Share premium HK$'000	Share options reserve HK$'000	Assets revaluation reserve HK$'000 (Note i)	Contributed surplus HK$'000 (Note ii)	Translation reserve HK$'000	Retained profits/ (accumulated losses) HK$'000	Total HK$'000	Non-controlling interests HK$'000	Total HK$'000
At 1 January 2013	219,211	1,177,668	1,140	10,354	12,804	291,891	488,839	2,201,907	181,897	2,383,804
Repurchase of shares (Note 35)	(16)	(345)	–	–	–	–	–	(361)	–	(361)
Loss for the year	–	–	–	–	–	–	(1,056,705)	(1,056,705)	(131,437)	(1,188,142)
Exchange differences arising on translation of foreign subsidiaries, an associate and a joint venture	–	–	–	–	–	39,598	–	39,598	4,030	43,628
Total comprehensive income/(loss) for the year	–	–	–	–	–	39,598	(1,056,705)	(1,017,107)	(127,407)	(1,144,514)
At 31 December 2013	219,195	1,177,323	1,140	10,354	12,804	331,489	(567,866)	1,184,439	54,490	1,238,929
At 1 January 2014	219,195	1,177,323	1,140	10,354	12,804	331,489	(567,866)	1,184,439	54,490	1,238,929
Loss for the year	–	–	–	–	–	–	(868,182)	(868,182)	–	(868,182)
Derecognition of Shanghai Subsidiaries (Note 43)	–	–	–	–	–	(300,186)	–	(300,186)	–	(300,186)
Exchange differences arising on translation of foreign subsidiaries	–	–	–	–	–	(541)	–	(541)	–	(541)
Total comprehensive loss for the year	–	–	–	–	–	(300,727)	(868,182)	(1,168,909)	–	(1,168,909)
Forfeiture of share options	–	–	(1,140)	–	–	–	1,140	–	–	–
Derecognition of Shanghai Subsidiaries (Note 43)	–	–	–	–	–	–	–	–	(54,490)	(54,490)
At 31 December 2014	219,195	1,177,323	–	10,354	12,804	30,762	(1,434,908)	15,530	–	15,530

Note:

(i) The assets revaluation reserve of the Group represents the revaluation surplus arising from business combination in 2009.

(ii) The contributed surplus of the Group represents an amount due to a former holding company waived upon the change of the substantial shareholders in 2002.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2014

	Note	2014 HK$'000	2013 HK$'000
OPEARATING ACTIVITIES			
Loss before tax		**(922,339)**	(1,176,878)
Adjustments for			
Finance costs	12	**–**	12,453
Interest income	10(a)	**(4,761)**	(8,861)
Depreciation of property, plant and equipment	13	**496**	35,481
Amortisation of prepaid lease payments		**–**	1,044
Amortisation of other intangible assets	13	**4,082**	121,181
(Gain)/loss on disposal of property, plant and equipment	10(b)	**(75)**	618
Gain on disposal of an intellectual property		**–**	(10,710)
Impairment losses on goodwill		**–**	384,308
Share of profit of a joint venture		**–**	(274)
Share of loss of an associate		**–**	11,828
Imputed interest income on receivable from Weiyi		**–**	(2,269)
Impairment loss on other intangible assets	21	**23,820**	170,000
Impairment loss on loan receivable	26	**83,738**	–
Impairment loss on goodwill included in interest in an associate		**–**	20,310
Impairment loss on an amount due from a related company	40(c)(iv)	**1,015**	–
Impairment loss on trade receivables	27(b)	**322**	–
Impairment loss on other receivables	27(c)	**957**	–
Impairment loss on amount due from an ex-director	40(c)(iii)	**1,249**	–
Loss arising from Shanghai Subsidiaries	43	**804,506**	–
Deposits paid for acquisition of intangible assets written off		**–**	40,000
Amoun due from subsidiaries of a joint venture written off		**–**	33,859
Other receivable written off		**–**	507,197
Unreconciled balances of intragroup current accounts		**313**	–
Write-down of inventories	25	**106**	–
Write back of an amount due to an ex-director	10(a)	**(3,478)**	–
Write back of a trade payable	10(a)	**(392)**	–
Exchange differences		**95**	–
Operating cash flows before changes in working capital		**(10,346)**	139,287
(Increase)/decrease in inventories		**(1,260)**	7,333
Increase in trade and other receivables, deposits and prepayments		**(7,835)**	(507,869)
Increase in trade and other payables		**14,744**	16,389
Increase in amount due to a related company		**5,815**	–
Cash generated from/(used in) operations		**1,118**	(344,860)
Income tax paid		**(207)**	(15,974)
Interest paid		**–**	(12,453)
NET CASH GENERATED FROM/(USED IN) OPERATING ACTIVITIES		**911**	(373,287)

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2014

	Note	**2014** **HK$'000**	2013 HK$'000
INVESTING ACTIVITIES			
Placement of pledged bank deposits		**–**	(10,985)
Addition of property, plant and equipment		**(86)**	(21,096)
Advance to related companies		**–**	(30,861)
Advance to subsidiaries of a joint venture		**–**	(4,598)
Derecognition of Shanghai Subsidiaries	43	**(44,770)**	–
Proceeds from disposal of intellectual property		**–**	8,830
Refund of deposit paid for acquisition of property, plant and equipment		**–**	50,456
Repayment from Weiyi		**–**	82,294
Interest received		**13**	8,861
Repayment from subsidiaries of a joint venture		**–**	8,184
Proceeds on disposal of property, plant and equipment		**75**	40
Repayment from related companies		**–**	20,098
NET CASH (USED IN)/GENERATED FROM INVESTING ACTIVITIES		**(44,768)**	111,223
FINANCING ACTIVITIES			
New bank loans raised		**–**	205,671
Repayment of bank borrowings		**–**	(192,025)
Repayment to a related company		**–**	(2,018)
NET CASH GENERATED FROM FINANCING ACTIVITIES		**–**	11,628
NET DECREASE IN CASH AND CASH EQUIVALENTS		**(43,857)**	(250,436)
CASH AND EQUIVALENTS AT THE BEGINNING OF THE YEAR		**49,726**	286,256
EFFECT OF FOREIGN EXCHANGE RATE CHANGE		**(117)**	13,906
CASH AND EQUIVALENTS AT THE END OF THE YEAR	30(b)	**5,752**	49,726

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2014

1. GENERAL

The Company is a public limited liability company incorporated in Bermuda and its shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The address of the registered office and principal place of business of the Company are located at Canon's Court, 22 Victoria Street, Hamilton HM 12, Bermuda and 11/F, Shum Tower, 268 Des Voeux Road Central, Sheung Wan, Hong Kong respectively.

The Company is an investment holding company. The principal activities of its principal subsidiaries at 31 December 2014 are set out in note 41.

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 2013. The predecessor auditor expressed an unmodified audit opinion on the consolidated financial statements for the year ended 31 December 2013. However, in view of (i) the findings of the SFC as set out in note 2(a) above, (ii) the issues as set out in note 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 2013 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 2013 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 on a basis consistent with that of the current year and therefore may not be comparable and any adjustments to the opening balances as at 1 January 2014 would have significant consequential effect on the financial performance of the Group for the year ended 31 December 2014 and/or the financial position of the Group as at 31 December 2014.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2014

2. BASIS OF PRESENTATION *(Continued)*

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. 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 "HK High Court") pursuant to which Mr. Zhao seek the removal of him from his office as executive director be set aside and to reinstate Mr. Zhao as executive director. On 22 March 2016, the High Court of HKSAR 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 as stated in note 22.

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 Biochip 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 address the Unresolved Matter. On 6 October 2015, an independent board committee (the "IBC") comprising two of the then 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).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2014

2. BASIS OF PRESENTATION *(Continued)*

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 Biochip 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. At present, the Board is unable to gain access to the premises of SHMY Biochip. 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 Biochip. Although the Group was able to obtain agreement from Mr. Yao Yuan to co-operate 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2014

2. BASIS OF PRESENTATION *(Continued)*

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

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 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 of gain access to the premises of Shanghai HealthDigit. In early November 2016, the Company issued civil claims against Mr. Iu Chung, 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 Chung 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 Chung 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 relevant activities of the Shanghai Subsidiaries which significantly affected the Shanghai Subsidiaries' returns and could not and to gain access to the premises, assets and 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 appointments, 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, 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 2014 based on the books and records made available to them. 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 2014 and 2013.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2014

2. BASIS OF PRESENTATION *(Continued)*

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

As a result, the consolidated financial statements for the year ended 31 December 2014 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, the details of which are set out in note 43.

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 2014 and net assets of the Group as at 31 December 2014.

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 2013 and 2014.

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 2013 and 2014, or whether all transactions entered into by the Group for the years ended 31 December 2013 and 2014 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:

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2014

2. BASIS OF PRESENTATION *(Continued)*

f) Irregularities identified by the Board *(Continued)*

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

(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 whereas 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 Chung ("Iu"), the brother of the then chairman of the board Mr. Yao Yuan ("Yao"), was the legal representative of SHMY Biochip.

(b) By an agreement dated 18 March 2014 between SHMY Biochip and Xiong wherein 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 wherein 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 cash RMB163,928,571 and issued 238,149,576 consideration shares of the Company at HK$0.478 per share. The Equity Transfer Agreement produced by Xiong, to which Yan was a party, suggests that no cash payment was to be paid to Yan.

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 connected 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2014

2. BASIS OF PRESENTATION *(Continued)*

f) Irregularities identified by the Board *(Continued)*

i) Shanghai Yuanqi Acquisition and lost of 70% equity interest in Shanghai Yuanqi (Continued)

Findings by the Board (Continued)

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

At all material times, Yao was the chairman of board of the Company and his brother 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 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 and 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:

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2014

2. BASIS OF PRESENTATION *(Continued)*

f) Irregularities identified by the Board *(Continued)*

ii) *Disposal of Shanghai Weiyi Hospital Investment and Management Limited* *(Continued)*

(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 was and 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 which was later confirmed by the Shanghai City Higher People's Court in the appeal by the Purchasers 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 as 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2014

2. BASIS OF PRESENTATION *(Continued)*

f) Irregularities identified by the Board *(Continued)*

ii) Disposal of Shanghai Weiyi Hospital Investment and Management Limited *(Continued)*

Further findings by the Board *(Continued)*

At the time of making the Disposal Announcement for the 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2014

2. BASIS OF PRESENTATION *(Continued)*

f) Irregularities identified by the Board *(Continued)*

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 Long 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 but 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 recovered 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 the transfer were unknown. For reasons as disclosed in note 43, the financial performance of SHMY Biochip were derecognised in these consolidated financial statements. Therefore, no other gains in respect of the allegedly recovery is recognized in these consolidated financial statements for the year ended 31 December 2014.

The Payment had raised concern from 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2014

2. BASIS OF PRESENTATION *(Continued)*

g) Going concern

During the year ended 31 December 2014, the Group incurred a loss of HK$868,182,000 and based on management accounts, the Group was still operating at a loss up to the date of approval of these consolidated financial statements. As at 31 December 2014, the Group had net current assets of HK$2,301,000. However, the Group has already recorded net current liabilities and net liabilities subsequently.

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 not under the loan agreement amounted for 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2014

2. BASIS OF PRESENTATION *(Continued)*

g) Going concern *(Continued)*

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

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 the 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 repayment of the loan and accrued interests 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 facilities 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 considers 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 basis.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2014

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 27	Investment entities
Amendments to HKAS 32	Offsetting financial assets and financial liabilities
Amendments to HKAS 36	Recoverable amount disclosures for non-financial assets
Amendments to HKAS 39	Novation of derivatives and continuation of hedge accounting
HK(IFRIC) – INT 21	Levies

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

(a) Amendments to HKFRS 10 include a definition of an investment entity and provide an exception to the consolidation requirement for entities that meet the definition of an investment entity. Investment entities are required to account for subsidiaries at fair value through profit or loss rather than consolidate them. Consequential amendments were made to HKFRS 12 and HKAS 27 (2011). The amendments to HKFRS 12 also set out the disclosure requirements for investment entities. The amendments have had no impact on the Group as the Company does not qualify as an investment entity as defined in HKFRS 10.

(b) The HKAS 32 Amendments clarify the meaning of "currently has a legally enforceable right to set off" for offsetting financial assets and financial liabilities. The amendments also clarify the application of the offsetting criteria in HKAS 32 to settlement systems (such as central clearing house systems) which apply gross settlement mechanisms that are not simultaneous. The amendments have had no impact on the Group as the Group does not have any offsetting arrangement.

(c) The amendments to HKAS 36 remove the requirement to disclose the recoverable amount of a cash-generating unit (CGU) to which goodwill or other intangible assets with indefinite useful lives had been allocated when there has been no impairment or reversal of impairment of the related CGU. Furthermore, the amendments introduce additional disclosure requirements applicable to when the recoverable amount of an asset or a CGU is measured at fair value less costs of disposal. These new disclosures include the fair value hierarchy, key assumptions and valuation techniques used which are in line with the disclosure required by HKFRS 13 *Fair Value Measurements*.

The application of these amendments has had no material impact on the disclosures in the Group's consolidated financial statements.

(d) The HKAS 39 Amendments provide an exception to the requirement of discontinuing hedge accounting in situations where over-the-counter derivatives designated in hedging relationships are directly or indirectly, novated to a central counterparty as a consequence of laws or regulations, or the introduction of laws or regulations. For continuance of hedge accounting under this exception, all of the following criteria must be met: (i) the novations must arise as a consequence of laws or regulations, or the introduction of laws or regulations; (ii) the parties to the hedging instrument agree that one or more clearing counterparties replace their original counterparty to become the new counterparty to each of the parties; and (iii) the novations do not result in changes to the terms of the original derivative other than changes directly attributable to the change in counterparty to achieve clearing. The amendments have had no impact on the Group as the Group has not novated any derivatives during the current and prior years.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2014

3. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS *(Continued)*

(e) HK(IFRIC)-Int 21 clarifies that an entity recognises a liability for a levy when the activity that triggers payment, as identified by the relevant legislation, occurs. The interpretation also clarifies that a levy liability is accrued progressively only if the activity that triggers payment occurs over a period of time, in accordance with the relevant legislation. For a levy that is triggered upon reaching a minimum threshold, the interpretation clarifies that no liability should be recognised before the specified minimum threshold is reached. The interpretation has had no impact on the Group as the Group does not have any levies.

The Company has not early applied the following new and revised HKFRSs that have been issued but are not yet effective for the current accounting period:

HKFRS 9	Financial instruments[1]
HKFRS 14	Regulatory deferral accounts[2]
HKFRS 15	Revenue from contracts with customers[1]
Amendments to HKFRS 11	Accounting for acquisitions of interests in joint operations[5]
Amendments to HKAS 16 and HKAS 38	Clarification of acceptable methods of depreciation and amortisation[5]
Amendments to HKAS 16 and HKAS 41	Agriculture: Bearer plants[5]
Amendments to HKAS 19	Defined benefit plans: Employee contributions[4]
Amendments to HKAS 27	Equity method in separate financial statements[5]
Amendments to HKFRS 10 and HKAS 28	Sale or contribution of assets between an investor and its associate or joint venture[8]
Amendments to HKFRSs	Annual improvements to HKFRSs 2010 – 2012 cycle[6]
Amendments to HKFRSs	Annual improvements to HKFRSs 2011 – 2013 cycle[4]
Amendments to HKFRSs	Annual improvements to HKFRSs 2012 – 2014 cycle[5]
Amendments to HKFRSs	Annual improvements to HKFRSs 2015 – 2017 cycle[7]
Amendments to HKAS 1	Disclosure initiative[5]
Amendments to HKFRS 10, HKFRS 12 and HKAS 28	Investment entities: Applying the consolidation exception[5]
HKFRS 16	Leases[7]
Amendments to HKFRS 2	Classification and measurement of share-based payment transactions[1]
Amendments to HKAS 7	Disclosure initiative[3]
Amendments to HKAS 12	Recognition of deferred tax assets for unrealised losses[3]
HK (IFRIC) – Int. 22	Foreign currency transactions and advance consideration[1]
HK (IFRIC) – Int. 23	Uncertainty over income tax treatments[7]
Amendments to HKAS 40	Transfers of investment property[1]
Amendments to HKFRS 9	Prepayment features with negative compensation[7]
Amendments to HKFRSs	Annual improvements to HKFRSs 2014-2016 cycle[9]
Amendments to HKFRS 15	Clarifications to HKFRS 15 “Revenue from Contracts with Customers”[1]
Amendments to HKAS 28	Investments in associates and joint ventures[7]
HKFRS 17	Insurance contracts[10]
Amendments to HKAS 19	Plan Amendment, curtailment or Settlement[7]
Amendments to HKAS 28	Long-term interests in associates and joint ventures[7]
Amendments to HKFRS 3	Definition of a business[11]
Amendments to HKAS1 and HKFRS 8	Definition of material[11]

1 Effective for annual periods beginning on or after 1 January 2018.
2 Effective for first annual HKFRS financial statements beginning on or after 1 January 2016.
3 Effective for annual periods beginning on or after 1 January 2017, with earlier application permitted.
4 Effective for annual periods beginning on or after 1 July 2014.
5 Effective for annual periods beginning on or after 1 January 2016.
6 Effective for annual periods beginning on or after 1 July 2014, with limited exceptions.
7 Effective for annual periods beginning on or after 1 January 2019.
8 Effective for annual periods beginning on or after a date to be determined.
9 Effective for annual periods beginning on or after 1 January 2017 or 1 January 2018, as applicable.
10 Effective for annual periods beginning on or after 1 January 2021
11 Effective for annual periods beginning on or after 1 January 2020

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2014

3. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS *(Continued)*

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 2014, the Group has non-cancellable operating lease commitments of HK$1,742,000, as disclosed in note 38. 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.

In addition, the requirements of Part 9, "Accounts and Audit", of the new Hong Kong Companies Ordinance (CAP. 622) come into operation from the Company's first financial year commencing after 3 March 2014 (i.e. the Company's financial year which began on 1 January 2015) in accordance with section 358 of that Ordinance. The Group is in the process of making an assessment of the expected impact of the changes in the Companies Ordinance on the consolidated financial statements in the period of initial application of Part 9. So far it has concluded that the impact is unlikely to be significant and will primarily only affect the presentation and disclosure of information in the consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2014

4. SIGNIFICANT ACCOUNTING POLICIES

a) Statement of compliance

Except for the matters referred in note 2, the consolidated financial statements have been prepared in accordance with HKFRSs issued by the HKICPA and the disclosure requirements of the Hong Kong Companies Ordinance which for this financial year and the comparative period continue to be those of the predecessor Companies Ordinance (Cap. 32), in accordance with transitional and saving arrangements for Part 9 of the new Hong Kong Companies Ordinance (Cap. 622), "Accounts and Audit", which are set out in sections 76 to 87 of Schedule 11 to that Ordinance. In addition, the consolidated financial statements also comply with the applicable disclosures provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

The consolidated financial statements have been prepared on the historical cost basis.

A summary of significant accounting policies adopted by the Group is set out below:

b) Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries. Control is achieved where the Company:

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

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

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

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2014

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

b) Basis of consolidation *(Continued)*

Changes in the Group's ownership interests in existing subsidiaries

When the Group loses control of a subsidiary, a gain or loss is recognised in profit or loss and is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests. All amounts previously recognised in other comprehensive income in relation to that subsidiary are accounted for as if the Group had directly disposed of the related assets or liabilities of the subsidiary (that is reclassified to profit or loss or transferred to another category of equity as specified/permitted by applicable HKFRSs). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under HKAS 39, when applicable, the cost on initial recognition of an investment in an associate or a joint venture.

c) Goodwill

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

For the purposes of impairment testing, goodwill is allocated to each of the cash-generating units (or groups of cash-generating units), that is expected to benefit from the synergies of the combination.

A cash-generating unit to which goodwill has been allocated is tested for impairment annually, or more frequently whenever there is indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit on a pro-rata basis based on the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in profit or loss. An impairment loss recognised for goodwill is not reversed in subsequent periods.

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

d) Investments in an associate and a joint venture

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

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

The result and assets and liabilities of an associate and a joint venture are incorporated in the consolidated financial statements using the equity method of accounting. Under the equity method, an investment in an associate or a joint venture is initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Group's share of the profit or loss and other comprehensive income of the associate or joint venture. When the Group's share of loss of an associate or a joint venture exceeds the Group's interest in that associate or joint venture (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate or joint venture), the Group discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Group has incurred legal and constructive obligations or made payments on behalf of the associate or joint venture.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2014

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

d) Investments in an associate and a joint venture *(Continued)*

An investment in an associate or a joint venture is accounted for using the equity method from the date on which the investee becomes an associate or a joint venture.

The requirements of HKAS 39 are applied to determine whether it is necessary to recognise any impairment loss with respect to the Group's investment in an associate or a joint venture. When necessary, the entire carrying amount of the investment is tested for impairment in accordance with HKAS 36 Impairment of Assets as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs to sell) with its carrying amount. Any impairment loss recognised form part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with HKAS 36 to the extent that the recoverable amount of the investment subsequently increases.

e) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable, and represents amounts receivable for goods sold and services provided in the normal course of business, net of discounts and sales related taxes.

Revenue from the sale of goods is recognised when the goods are delivered and titles have passed, at which time all the following conditions are satisfied:

- the Group has transferred to the buyer the significant risks and rewards of ownership of the goods;
- the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the Group; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Service income is recognised when the relevant services are provided.

Interest income from a financial asset is recognised when it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably. Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

f) Property, plant and equipment

Property, plant and equipment including buildings held for use in the production or supply of goods or services, or for administrative purposes (other than properties under construction as described below) are stated in the consolidated statement of financial position at cost less subsequent accumulated depreciation and subsequent accumulated impairment losses, if any.

Properties in the course of construction for production, supply or administrative purposes are carried at cost, less any recognized impairment loss. Costs include professional fees and, for qualifying assets, borrowing costs capitalised in accordance with the Group's accounting policy. Such properties are classified to the appropriate categories of property, plant and equipment when completed and ready for intended use.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2014

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

f) Property, plant and equipment *(Continued)*

Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use. Depreciation is recognised so as to write off the cost of assets (other than properties under construction) less their residual values over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of the reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

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

g) Leasing

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

h) The Group as lessee

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

i) Leasehold land for own use

Interest in leasehold land that is accounted for as an operating lease is presented as "prepaid lease payments" in the consolidated statement of financial position and is amortised over the lease term on a straight-line basis.

j) Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in the respective functional currency (that is, the currency of the primary economic environment in which the entity operates) at the rates of exchange prevailing on the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

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

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group are translated into the presentation currency of the Group (that is, Hong Kong dollars) using exchange rates prevailing at the end of the reporting period. Income and expenses items are translated at the average exchange rates for the year, unless exchange rates fluctuate significantly during the period, in which case, the exchange rates prevailing at the dates of transactions are used. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity under the heading of translation reserve (attributed to non-controlling interests as appropriate).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2014

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

j) Foreign currencies *(Continued)*

On derecognition of a group entity which is a foreign operation, exchange differences accumulated in the translation reserve arising from translating the assets and liabilities of the relevant entity into the presentation currency of the Group, will be transferred directly to accumulated profits.

Goodwill and fair value adjustments on identifiable assets acquired arising on an acquisition are treated as assets and liabilities of that subsidiary and retranslated into the presentation currency at the rate of exchange prevailing at the end of the reporting period. Exchange differences arising are recognised in equity under the heading of translation reserve.

k) Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

l) Government grants

Government grants are not recognised until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received.

Government grants are recognised in profit or loss on a systematic basis over the periods in which the Group recognises as expenses the related costs for which the grants are intended to compensate. Specifically, government grants whose primary condition is that the Group should purchase, construct or otherwise acquire non-current assets are recognised as a deduction from the carrying amount of the relevant asset in the consolidated statement of financial position and transferred to profit or loss on a systematic and rational basis over the useful lives of the related assets.

Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs to be incurred are recognised in profit or loss in the period in which they become receivable.

m) Retirement benefits costs

Payments to defined contribution retirement benefit plans, government-managed retirement benefit schemes and the Mandatory Provident Fund Scheme are recognised as expenses when employees have rendered services entitling them to the contributions.

n) Taxation

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2014

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

n) Taxation *(Continued)*

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

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

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

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

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

Current and deferred tax is recognised in profit or loss.

o) Intangible assets

Intangible assets acquired separately

Intangible assets with finite useful lives that are acquired separately are carried at cost less accumulated amortisation and accumulated impairment losses. Amortisation is recognised on a straight-line basis over their estimated useful lives. The estimated useful life and amortisation method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis. Intangible assets with indefinite useful lives that are acquired separately are carried at cost less accumulated impairment losses.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2014

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

o) Intangible assets *(Continued)*

Internally-generated intangible assets – research and development expenditure

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

An internally-generated intangible asset arising from development (or from the development phase of an internal project) is recognised if, and only if, all of the following have been demonstrated:

- the technical feasibility of completing the intangible asset so that it will be available for use or sale;
- the intention to complete the intangible asset and use or sell it;
- the ability to use or sell the intangible asset;
- how the intangible asset will generate probable future economic benefits;
- the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- the ability to measure reliably the expenditure attributable to the intangible asset during its development.

The amount initially recognised for internally-generated intangible assets is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria listed above. Where no internally-generated intangible asset can be recognised, development expenditure is recognised in profit or loss in the period in which it is incurred.

Subsequent to initial recognition, internally-generated intangible assets are reported at cost less accumulated amortisation and accumulated impairment losses, on the same basis as intangible assets that are acquired separately.

Intangible assets acquired in a business combination

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

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

Derecognition of intangible assets

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

p) Inventories

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2014

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

q) Financial instruments

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

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets or financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Financial assets

Financial assets are classified into loans and receivables. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

Effective interest method

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

Interest income is recognised on an effective interest basis for debt instruments.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables (including trade and other receivables, pledged bank deposits, amount due from a director, amounts due from related parties, amounts due from subsidiaries of a joint venture, loan receivable and bank balances and cash) are measured at amortised cost using the effective interest method, less any impairment.

Interest income is recognised by applying the effective interest rate, except for short-term receivables where the recognition of interest would be immaterial.

Impairment of financial assets

Financial assets are assessed for indicators of impairment at the end of the reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been affected.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2014

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

q) Financial instruments *(Continued)*

Financial assets *(Continued)*

Impairment of financial assets (Continued)

Objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation; or
- the disappearance of an active market for that financial asset because of financial difficulties.

For certain categories of financial asset, such as trade receivables, assets that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the credit period of 270 days, observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, the amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the financial asset's original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss. Changes in the carrying amount of the allowance account are recognised in profit or loss.

For financial assets measured at amortised cost, if, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment losses was recognised, the previously recognized impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Financial liabilities and equity instruments

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

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

Other financial liabilities

Other financial liabilities (including trade and other payables, amounts due to related companies/a subsidiary of a joint venture and bank borrowings) are subsequently measured at amortised cost using the effective interest method.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2014

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

q) Financial instruments *(Continued)*

Financial liabilities and equity instruments *(Continued)*

Effective interest method

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

Interest expense is recognised on an effective interest basis.

Derecognition

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity.

On the derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised in other comprehensive income and accumulated in equity is recognised in profit or loss.

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

r) Available-for-sale financial assets

Investments in securities which do not fall into securities held for trading and held-to-maturity securities are classified as available-for-sale financial assets. At the end of each reporting period, the fair value is remeasured with any resultant gain or loss being recognised in other comprehensive income and accumulated separately in equity in the fair value reserve. As an exception to this, investments in equity securities that do not have a quoted price in an active market for an identical instrument and whose fair value cannot otherwise be reliably measured are recognized in the statement of financial position at cost less impairment losses.

s) Share-based payment arrangements

Share-based payment transactions of the Company

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2014

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

t) Impairment of tangible and intangible assets other than goodwill (see the accounting policy in respect of goodwill above)

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

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

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

When an impairment loss subsequently reverses, the carrying amount of the asset (or a cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or a cash-generating unit) in prior years. A reversal of an impairment loss is recognised as income immediately in profit or loss.

5. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in note 4, management is required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and underlying assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

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

a) Critical judgements in applying accounting policies

In the process of applying the accounting policies, the directors have made the following judgements that have the most significant effect on the amounts recognised in the consolidated financial statements.

Going concern basis

As mentioned in note 2(g) to the consolidated financial statements, the Board is satisfied that the Group will be able to meet its financial obligations in full as and when they fall due in the foreseeable future. As the Board is confident that the Group will be able to continue in operational existence in the foreseeable future, the consolidated financial statements have been prepared on a going concern basis. If the going concern basis is not appropriate, adjustments would have to be made to restate the values of assets to their recoverable amounts, to provide for further liabilities which might arise and to reclassify non-current assets and liabilities as current assets and liabilities respectively. Such adjustments might have a significant consequential effect on the loss for the year and net assets of the Group as at 31 December 2014.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2014

5. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY *(Continued)*

b) Key sources of estimation uncertainty

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

Useful life and impairment of other intangible assets – technical know-how

Other intangible assets – technical know-how is amortised over their useful economic lives. The assessment of estimated useful lives is a matter of judgment based on the experience of the Group, taking into account factors such as the ability to legally renew the technical know-how, technological progress and changes in market demand. Useful lives are periodically reviewed for continued appropriateness. Due to long lives of assets, changes to the estimates used can result in variations in their carrying value in the period in which the changes take place. Determining whether other intangible assets are impaired requires an estimation of the value in use of the respective cash-generating units to which those intangible assets belong. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the cash-generating units and suitable discount rates in order to calculate the present value.

At 31 December 2014, the carrying amount of technical know-how was HK$16,934,000, net of accumulated amortisation and impairment loss of HK$286,665,000 (2013: HK$734,375,000, net of accumulated amortisation and impairment loss of HK$401,382,000). Details of these other intangible assets are set out in note 21.

Estimated impairment of trade and bills receivables/other receivables

When there is objective evidence of impairment loss, the Group takes into consideration the estimation of future cash flows. The amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (that is, the effective interest rate computed at initial recognition). Where the actual future cash flows are less than expected, a material impairment loss may arise.

At 31 December 2014, the carrying amount of trade receivables was HK$15,527,000 net of allowance for doubtful debts of HK$322,000 (2013: HK$171,762,000, net of allowance for doubtful debts of HK$15,050,000). Details are set out in note 27.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2014

5. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY *(Continued)*

b) Key sources of estimation uncertainty *(Continued)*

Allowance for slow-moving inventories

Allowance for slow-moving inventories is made based on the ageing and estimated net realisable value of inventories. The assessment of the allowance amount involves judgement and estimates. Where the actual outcome in future is different from the original estimate, such difference will impact the carrying value of inventories and allowance charge/write-back in the period in which such estimate has been changed. Allowance for slow-moving inventories of HK$106,000 (2013: HK$Nil) was made as at 31 December 2014.

Income tax and deferred taxation

The Group estimates its income tax provision in accordance with the prevailing tax rules and regulations, taking into account any special approvals obtained from relevant tax authorities and any preferential tax treatment to which it is entitled in each location or jurisdiction in which the Group operates. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax provisions in the period in which such determination is made.

The Group believes it has recorded adequate current tax provision based on the prevailing tax rules and regulations and its current best estimates and assumptions. In the event that future tax rules and regulations or related circumstances change, adjustments to current taxation may be necessary which would impact the Group's financial performance or financial position. As at 31 December 2014, the carrying amount of income tax payable was HK$358,000 (2013: HK$27,024,000).

Deferred income tax liabilities relating to certain temporary differences are recognised as the directors consider it is probable that future taxable profit will be available against which the temporary differences can be utilised. Where the expectation is different from the original estimate, such differences will impact the recognition of deferred tax liabilities and tax expenses in the periods in which such estimate is changed. As at 31 December 2014, the carrying amount of deferred tax liabilities amounted to HK$5,257,000 (2013: HK$193,042,000).

6. CAPITAL MANAGEMENT

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged from prior year.

The capital structure of the Group consists of net debt, which includes the bank borrowings disclosed in note 32, net of cash and cash equivalents and equity attributable to owners of the Company, comprising issued share capital, various reserves and accumulated profits.

The Group is not subject to any externally imposed capital requirements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2014

7. FINANCIAL INSTRUMENTS

a) Categories of financial instruments

	2014 HK$'000	2013 HK$'000
Financial assets		
Loans and receivables		
– Trade and other receivables	15,922	193,404
– Amounts due from related parties	–	18,942
– Amounts due from subsidiaries of a joint venture	–	721
– Amount due from a director	–	640
– Loan receivable	–	118,000
– Pledged bank deposits	–	35,863
– Bank balances and cash	5,752	49,726
	21,674	417,296
Financial liabilities		
Amortised cost		
– Trade and other payables	23,020	39,273
– Amount due to a related company	–	2,930
– Amount due to a subsidiary of a joint venture	–	10,519
– Bank borrowings	–	208,834
	23,020	261,556

b) Financial risk management objectives and policies

The Group's major financial instruments include trade and other receivables, amount(s) with related parties/related companies/a subsidiary of a joint venture/subsidiaries of a joint venture/a director, loan receivable, bank balances and cash, pledged bank deposits, trade and other payables and bank borrowings. Details of these financial instruments are disclosed in the respective notes. The risks associated with these financial instruments include market risk (currency risk and interest rate risk), credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. Management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Market risk

(i) Currency risk

The Group mainly operates in the PRC, and did not have significant sales or purchases denominated in currencies other than the functional currency of the relevant group entities. However, the Group has certain bank balances that are denominated in Hong Kong dollar ("HK dollar") and United States dollar ("US dollar"). As a result, the Group is exposed to fluctuations in exchange rates of US dollar and HK dollar against Renminbi ("RMB"). The Group did not enter into any derivative contracts nor did it have a foreign currency hedging policy aimed at minimising exchange rate risks during the year. However, the management closely monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arises.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2014

7. FINANCIAL INSTRUMENTS *(Continued)*

b) Financial risk management objectives and policies *(Continued)*

Market risk *(Continued)*

(i) Currency risk (Continued)

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

	Assets	
	2014	2013
	HK$'000	HK$'000
US dollar	**131**	112
HK dollar	**18**	25
	149	137

Sensitivity analysis

The Group is mainly exposed to US dollar and HK dollar. No sensitivity analysis was prepared since the Directors are of the opinion that the impact of the Group's foreign currency denominated monetary assets at the end of the reporting period is not significant.

(ii) Interest rate risk

The Group is exposed to cash flow interest rate risk in relation to its variable-rate bank balances and bank borrowings (see notes 30 and 32 for details of bank balances and bank borrowings, respectively). It is the Group's policy to keep its bank balances and bank borrowings at floating rate of interests so as to minimise the fair value interest rate risk.

The Group is also exposed to fair value interest rate risk in relation to its fixed-rate loan receivable, pledged bank deposits and bank borrowings (see notes 26, 30 and 32 for details of loan receivable, pledged bank deposits and bank borrowings respectively).

Sensitivity analysis

The sensitivity analysis below have been determined based on the exposure to interest rate for variable-rate bank balances and bank borrowings. The analysis is prepared assuming the financial instruments outstanding at the end of the reporting period were outstanding for the whole year. A 50 basis points (2013: 50 basis points) increase or decrease is used and represents management's assessment of the reasonably possible change in interest rates.

If interest rates had been 50 basis points (2013: 50 basis points) higher/lower and all other variables were held constant, the Group's loss for the year ended 31 December 2014 would increase/decrease by HK$Nil (2013: HK$210,000). This is mainly attributable to the Group's exposure to interest rates on its variable-rate bank borrowings and bank balances.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2014

7. FINANCIAL INSTRUMENTS *(Continued)*

b) Financial risk management objectives and policies *(Continued)*

Credit risk

As at 31 December 2014, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties is arising from the carrying amount of the respective recognised financial assets as stated in the consolidated statement of financial position.

In order to minimise the credit risk, the management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual trade debt at the end of the reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the Directors consider that the Group's credit risk is significantly reduced.

The Group has concentration of credit risk as 14% (2013: 1%) and 50% (2013: 9%) of the total trade receivables was due from the Group's largest customer and the five largest customers, respectively. In addition, the Group has concentration of credit risk on loan receivable of HK$Nil (2013: HK$118 million) as at 31 December 2014.

The Group's concentration of credit risk by geographical locations of customers are mainly in the PRC, which accounted for all the trade receivables as at 31 December 2013 and 2014.

The credit risk on bank balances is limited because the counterparties are reputable banks in the PRC.

Other than the concentration of credit risk on trade receivables, loan receivable and liquid funds which are deposited with several banks with good reputation, the Group does not have any other significant concentration of credit risk.

Liquidity risk

In the management of the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows. The management also monitors the utilisation of bank borrowings and ensures compliance with loan covenants.

The following table details the Group's remaining contractual maturity for its non-derivative financial liabilities. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The maturity dates for other non-derivative financial liabilities are based on the agreed repayment dates.

The table includes both interest and principal cash flows. To the extent the interest flows are at floating rate, the undiscounted amount is derived from the interest rate at the end of the reporting period.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2014

7. FINANCIAL INSTRUMENTS *(Continued)*

b) Financial risk management objectives and policies *(Continued)*

Liquidity risk (Continued)

Liquidity tables

2014

	Weighted average interest rate %	On demand or less than 1 month HK$'000	1 – 3 months HK$'000	3 months to 1 year HK$'000	Total Undiscounted cash flows HK$'000	Carrying amount at 31 December 2014 HK$'000
Trade and other payables	–	23,020	–	–	23,020	23,020

2013

	Weighted average interest rate %	On demand or less than 1 month HK$'000	1 – 3 months HK$'000	3 months to 1 year HK$'000	Total Undiscounted cash flows HK$'000	Carrying amount at 31 December 2013 HK$'000
Trade and other payables	–	34,200	5,073	–	39,273	39,273
Bank borrowings						
– fixed rate	6.79	–	–	119,419	119,419	115,912
– variable rate	6.48	–	–	96,360	96,360	92,922
Amount due to a subsidiary of a joint venture	–	10,519	–	–	10,519	10,519
Amounts due to related companies	–	2,930	–	–	2,930	2,930
		47,649	5,073	215,779	268,501	261,556

The amounts included above for variable interest rate instruments for non-derivative financial liabilities is subject to change if changes in variable interest rates differ from those estimates of interest rates determined at the end of the reporting period.

c) Fair value

The fair value of financial assets and financial liabilities are determined as follows:

- the fair value of financial assets with standard terms and conditions and traded in active liquid markets are determined with reference to quoted market bid prices; and

- the fair value of other financial assets and financial liabilities is determined in accordance with generally accepted pricing models based on discounted cash flow analysis.

The Board considers that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the consolidated financial statements approximate their fair values.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2014

7. FINANCIAL INSTRUMENTS *(Continued)*

d) Offsetting financial assets and financial liabilities

The following financial assets and financial liabilities are subject to offsetting agreements:

As at 31 December 2014	**Gross amounts of recognised financial assets/liabilities**	**Gross amounts of recognised financial assets/ liabilities set off in the consolidated statement of financial position**	**Net amounts of financial assets/ liabilities presented in the consolidated statement of financial position**
	HK$'000	HK$'000	HK$'000
Other receivables (net of allowance of doubtful debts of HK$957,000)	2,803	(2,802)	1
Receipts in advance	(6,575)	2,802	(3,773)
Amount due from a substantial shareholder	320	(320)	–
Amount due to a substantial shareholder	(320)	320	–
Total	(3,772)	–	(3,772)

8. REVENUE

An analysis of the Group's revenue for the year is as follows:

	Note	**2014 HK$'000**	2013 HK$'000
Sales from health care division	(a)	**45,243**	20,893
Sales from protein chips division	(b)	**–**	281,293
Medical centres management	(b)	**–**	71,459
Sales from individualised target therapy division	(b)	**–**	29,467
Sales from bio-drugs division	(b)	**–**	1,038
		45,243	404,150

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2014

8. REVENUE *(Continued)*

Note:

(a) 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 certain 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 distributors (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, Genetel Shenzhen was required to pay the distributors the technical service fees (note 13) and refund the Payments (classified as receipts in advance in note 31(b)) to the distributors net of appropriate value added tax incurred by Genetel Shenzhen in issuing invoices for the distributors. No acknowledgment 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 amounts stated in the sales invoices issued for the End Users were recognised as revenue by Genetel Shenzhen.

(b) In 2013, these sales were generated by the Shanghai Subsidiaries. As the Board was unable to gain access to the books and records of the Shanghai Subsidiaries, the sales of the Shanghai Subsidiaries were derecognised from these consolidated financial statements.

9. SEGMENT INFORMATION

Information reported to the Executive Directors of the Company, being the chief operating decision maker, for the purposes of resources allocation and assessment of segment performance focuses on types of goods or services delivered or provided.

Specifically, the Group's reportable and operating segments under HKFRS 8 are as follows:

Protein chips division ("PCD")	–	Manufacture and trading of protein chips and related equipment
Health care division ("HCD")	–	Manufacture and trading of HPV detection products and related equipment
Medical centres management ("MCM")	–	Provision of medical diagnostic, health check and medical appraisal services
Individualised target therapy division ("ITTD")	–	Research, development and trading of individualised molecular diagnostic products
Bio-drugs division ("BDD")	–	Research, development and trading of specialised monoclonal antibody drugs.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2014

9. SEGMENT INFORMATION *(Continued)*

Segment revenue and results

As disclosed in note 43 to consolidated financial statements, the Board was unable to gain access to the books and records of the Shanghai Subsidiaries which were engaged in the protein chips, medical centres management, individualised target therapy and bio-drugs divisions. Therefore, the consolidated financial statements only include the results of the remaining subsidiary which is engaged in the health care division. In this regard, no segment information was presented for the year ended 31 December 2014.

	Protein chips division HK$'000	Health care division HK$'000	Medical centres management HK$'000	Individualised target therapy division HK$'000	Bio-drugs division HK$'000	Segment total HK$'000	Elimination HK$'000	Consolidated HK$'000
For the year ended 31 December 2013								
REVENUE								
External sales	281,293	20,893	71,459	29,467	1,038	404,150	–	404,150
Inter-segment sales	23,014	–	–	–	–	23,014	(23,014)	–
Total	304,307	20,893	71,459	29,467	1,038	427,164	(23,014)	404,150
Segment results	45,156	(17,958)	(14,774)	(47,356)	(37,043)	(71,975)	(519)	(72,494)
Unallocated expenses								(7,423)
Interest income								8,861
Share of profit of a joint venture								274
Share of loss of an associate								(11,828)
Impairment losses on goodwill								(384,308)
Impairment losses on goodwill included in interest in an associate								(20,310)
Impairment losses on other intangible assets								(170,000)
Other receivable written off								(507,197)
Finance costs								(12,453)
Loss before tax								(1,176,878)

The accounting policies of the operating segments were the same as the Group's accounting policies described in note 4. Segment results represent the profit and loss of each segment without allocation of central administration costs, directors' salaries, share of results of a joint venture and an associate, impairment losses on goodwill, other intangible assets and goodwill included in interest in an associate, other receivable, investment income and certain finance costs. This is the measure reported to the chief operating decision maker for the purposes of resources allocation and performance assessment.

For the purpose of assessment by the chief operating decision maker, the amortisation of other intangible assets were included in segment results while the corresponding other intangible assets have not included in the segment assets.

Inter-segment sales are charged at cost-plus basis.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2014

9. SEGMENT INFORMATION *(Continued)*

Segment assets and liabilities

The following is an analysis of the Group's assets and liabilities by reportable and operating segment for the year ended 31 December 2013:

	2013 HK$'000
ASSETS	
Segment assets	
– PCD	531,632
– HCD	13,709
– MCM	37,122
– ITTD	18,287
– BDD	1,942
	602,692
Goodwill	47,115
Other intangible assets	807,379
Unallocated assets	296,250
Consolidated total assets	1,753,436
LIABILITIES	
Segment liabilities	
– PCD	43,068
– HCD	5,242
– MCM	29,581
– ITTD	2,006
– BDD	1,266
	81,163
Unallocated liabilities	433,344
Consolidated total liabilities	514,507

For the purposes of monitoring segment performances and allocating resources between segments:

- all assets are allocated to operating segments, other than goodwill, interest in a joint venture and an associate, other intangible assets, loan receivable, amounts due from related parties, pledged bank deposits, bank balances and cash and other unallocated corporate assets; and

- segment liabilities included trade and other payables allocated to operating segments.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2014

9. SEGMENT INFORMATION *(Continued)*

Other segment information

Amounts included in the measure of segment profit or loss or segment assets:

	Protein chips division HK$'000	Health care Division HK$'000	Medical centres management HK$'000	Individualised target therapy division HK$'000	Bio-drugs division HK$'000	Segment total HK$'000	Unallocated HK$'000	Consolidated HK$'000
For the year ended 31 December 2013								
Additions to non-current assets (Note)	12,278	774	7,686	3,893	645	25,276	–	25,276
Depreciation of property, plant and equipment	27,927	598	4,228	2,355	373	35,481	–	35,481
Loss on disposal of property, plant and equipment	618	–	–	–	–	618	–	618
Gain on sale of an intellectual property	(10,710)	–	–	–	–	(10,710)	–	(10,710)
Amortisation of prepaid lease payments	1,044	–	–	–	–	1,044	–	1,044
Amortisation of other intangible assets	10,000	20,443	7,377	47,239	36,122	121,181	–	121,181
Deposits paid for acquisition of intangible assets written off	40,000	–	–	–	–	40,000	–	40,000
Amounts due from subsidiaries of a joint venture written off	–	–	33,859	–	–	33,859	–	33,859

Note: Non-current assets excluded goodwill, other intangible assets and financial instruments

There is no analysis for amounts not included in the measure of segment results or segment assets but regularly reviewed by the chief operating decision maker for the year ended 31 December 2013.

Revenue from major products and services

The following is an analysis of the Group's revenue from its major products and services:

	2014 HK$'000	2013 HK$'000
HPV detection products and related equipment	**45,243**	20,893
Protein chips	**–**	306,281
Medical diagnostic, health check and medical appraisal services	**–**	46,471
Individualised molecular diagnostic products	**–**	29,467
Bio-drugs products	**–**	1,038
	45,243	404,150

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2014

9. SEGMENT INFORMATION *(Continued)*

Geographical information

About 95% of the Group's revenue are derived from the operations in the PRC and about 94% (2013: 91%) of the Group's non-current assets excluding financial instruments are located in the PRC. Therefore, no geographical information is presented.

Information about major customers

For the years ended 31 December 2014 and 2013, no single customer contributed 10% or more than 10% of the total revenue of the Group.

10. OTHER INCOME AND OTHER GAINS OR LOSSES

a) Other income

	2014 HK$'000	2013 HK$'000
Interest income		
– on bank deposits	13	1,781
– on loan receivable (Note i)	4,748	7,080
Government subsidy (Note ii)	–	1,937
Imputed interest income on receivable from Shanghai Weiyi Hospital Investment and Management Company Limited ("Weiyi")	–	2,269
Sales of consumables	–	53
Write back of an amount due to an ex-director (Note iii)	3,478	–
Write back of a trade payable	392	–
Others	51	236
	8,682	13,356

Notes:

(i) The amount represented interest income from loan receivable from 牟清 as disclosed in note 26 to the consolidated financial statements. Out of this interest income, HK$1,238,000 was impaired in the current year as disclosed in note 26 and the balance of HK$3,510,000 related to the receivable brought forward from 2013. The Board was unable to confirm if the interest income of HK$3,510,000 was actually received by SHMY Biochip.

(ii) The Group received government grants from the local municipal governments in relation to the encouragement of the development and advancement of the business of the Group. According to the relevant government grant documents, the grants are general subsidies for the business operations of the Group.

(iii) The amount represented the director's remuneration of HK$431,000 payable to Mr. Chien Hoe Yong, Henry ("Mr. Chien") and a balance of HK$3,047,000 due to Mr. Chien as recorded in the books of the Company. The Board understood that there were housing allowances paid to Mr. Chien in previous years, however, Mr. Chien was unable to provide the supporting documents for the housing expenses to the Group. Therefore, the Group did not pay the director's remuneration for 2014 to Mr. Chien. The Board noted that there was an amount of HK$3,047,000 credited to the current account with Mr. Chien without any supporting documents during the year ended 31 December 2014. On 18 September 2014, Mr. Chien took legal actions against the Company for the payment of HK$3,866,000 as director's fee, housing allowance and reimbursements of expenses and RMB30,000,000 (equivalent to HK$37,481,000) as special bonus due to him totalling HK$41,347,000 plus interest, the details of which were disclosed in note 46(d) to the consolidated financial statements. Given that the action was dismissed with no order as to costs, the Board write back the balance due to Mr. Chien as other income during the year ended 31 December 2014.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2014

10. OTHER INCOME AND OTHER GAINS OR LOSSES *(Continued)*

b) Other gains and losses

	2014 HK$'000	2013 HK$'000
Gain on sale of an intellectual property (Note)	–	10,710
Gain/(loss) on disposal of property, plant and equipment	75	(618)
Exchange loss, net	(53)	
	22	10,092

Note: In 2012, the Group entered into a sale and purchase agreement in relation to an internally developed intellectual property with an independent third party for a consideration of RMB9,000,000. RMB2,000,000 had been received in 2012 and was recognised as receipt in advance under other payables. In 2013, as the transfer of ownership of such intellectual property was registered and the related consideration has been received in full, a gain on disposal of intellectual property amounting to RMB8,491,000 (equivalent to HK$10,710,000), net of tax was therefore recognised.

11. DEPOSITS PAID FOR ACQUISITION OF INTANGIBLE ASSETS WRITTEN OFF

The amount was related to the deposits paid for the acquisition of two patents from two independent third parties in 2011 at a consideration of HK$32,000,000 and HK$35,000,000 respectively. In 2011, a deposit of HK$20,000,000 was paid to each of the two independent third parties. During 2013, the ex-directors were still in the negotiation with the two independent third parties in relation to the registration of transfer of ownership regarding the two patents and since the transfer of the titles was uncertain, the ex-directors considered the recovery of such deposits were remote and the entire amount of HK$40,000,000 had been written off accordingly.

12. FINANCE COSTS

	2014 HK$'000	2013 HK$'000
Interest on bank borrowings wholly repayable within five years	–	12,305
Finance cost on discounted bills	–	148
	–	12,453

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2014

13. LOSS BEFORE TAX

	2014 HK$'000	2013 HK$'000
Loss before tax has been arrived at after charging:		
Depreciation of property, plant and equipment	**496**	35,481
Amortisation of prepaid lease payments	**–**	1,044
Amortisation of other intangible assets (included in other expenses)	**–**	93,361
Amortisation of other intangible assets (included in cost of sales)	**4,082**	27,820
Staff costs		
– directors' emoluments (Note 15(a))	**2,919**	3,844
– other staff costs	**9,801**	40,595
– retirement benefits scheme contributions, excluding directors	**971**	4,979
	13,691	49,418
Auditors' remuneration		
Audit service		
– Crowe	**700**	–
– Other auditors	**1,621**	1,659
Non-audit service		
– Other auditors	**43**	–
Cost of inventories recognised as expenses	**3,890**	126,111
Write-down of inventories	**106**	–
Research and development expenditure (included in other expenses)	**3,320**	10,925
Technical service fees (Note) (included in administrative expenses)	**22,566**	5,316

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$14,486,000 were supported by invoices issued by third parties unrelated to the provision of technical services.

The Board noted that out of the technical services fees, HK$4,294,000 were related to the sales transactions conducted and recognised in 2013. In the absence of sufficient information, the Board was unable to determine if these technical services fees of HK$4,294,000 had been accrued in the consolidated financial statements for the year ended 31 December 2013.

14. INCOME TAX (CREDIT)/EXPENSE

	2014 HK$'000	2013 HK$'000
PRC Enterprise Income Tax		
– Current year	**527**	23,122
– Underprovision in prior years	**–**	19
	527	23,141
Other jurisdiction		
– Current year	**–**	850
Deferred tax (Note 34)		
– Current year	**(6,643)**	(12,727)
– Write back of unreconciled deferred tax liabilities	**(48,041)**	–
Income tax (credit)/expenses	**(54,157)**	11,264

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2014

14. INCOME TAX (CREDIT)/EXPENSE *(Continued)*

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 subsidiaries is 25%.

Pursuant to the relevant laws and regulations in the PRC, one of the Group's PRC subsidiaries, 上海銘源數康生物芯片有限公司 is exempted from PRC income tax for two years starting from its first profit-making year, followed by a 50% reduction for the next three years. The first profit-making year is 2008 and the applicable tax rate for 2012 is 12.5%. The subsidiary was then approved as a "high and new technology enterprise" and became eligible to enjoy a preferential enterprise income tax rate of 15% starting from the 2013 until 2015. The Group's another PRC subsidiary, 湖州數康生物科技有限公司 was approved as a "high and new technology enterprise" and became eligible to enjoy a preferential enterprise income tax rate of 15% for both years until 2013. As disclosed in note 43 to the consolidated financial statements, both 上海銘源數康生物菘片有限公司 and 湖州數康生物科技有限公司 were derecognised since 1 January 2014.

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

The income tax (credit)/expense 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:

	2014 HK$'000	2013 HK$'000
Loss before tax	**(922,339)**	(1,176,878)
Notional tax on loss before taxation, calculated at the rates applicable to losses in the tax jurisdictions concerned	**(152,424)**	(294,220)
Tax effect of share of results of a joint venture and an associate	**–**	2,888
Tax effect of income not taxable for tax purpose	**(2,440)**	–
Tax effect of expenses not deductible for tax purpose	**148,497**	302,784
Tax effect of tax losses not recognised	**–**	722
Tax effect of temporary differences not recognised	**128**	–
Income tax on concessionary rate	**(411)**	(6,281)
Underprovision in prior years	**–**	19
Tax effect of withholding tax on the undistributed profits of PRC subsidiaries	**332**	6,051
Effect of different tax rates of subsidiaries operating in other jurisdictions	**–**	(918)
Write back of unreconciled deferred tax liabilities (Note 34)	**(48,041)**	–
Others	**202**	219
Income tax (credit)/expense for the year	**(54,157)**	11,264

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2014

15. DIRECTORS', CHIEF EXECUTIVE'S AND EMPLOYEES' EMOLUMENTS

a) Directors' and chief executive's emoluments

		Fees HK$'000	Salaries and other benefits HK$'000	Retirement benefits scheme contributions HK$'000	Total HK$'000
Year ended 31 December 2014					
Executive directors					
– Yao Yuan	(removed on 20 May 2016)	1,518	282	17	1,817
– Zhao Chao	(removed on 5 June 2015)	120	–	–	120
– Chien Hoe Yong, Henry	(resigned on 23 April 2014)	80	351	5	436
– Zhou Li Qun	(resigned on 8 January 2015)	120	–	–	120
		1,838	633	22	2,493
Non-executive director					
– Yu Ti Jun	(removed on 20 May 2016)	120	–	–	120
Independent non-executive directors					
– Lam Lee G.	(appointed on 12 September 2014 and resigned on 26 May 2015)	36	–	–	36
– Yang Chun Bao	(appointed on 12 September 2014 and retired on 20 May 2016)	36	–	–	36
– Yao Liang	(appointed on 28 November 2014 and retired on 20 May 2016)	11	–	–	11
– Hu Jin Hua	(resigned on 24 April 2014)	38	–	–	38
– Lee Sze Ho, Henry	(retired on 12 June 2014)	54	–	–	54
– Chow Wing Kin	(appointed on 24 April 2014 and retired on 12 June 2014)	16	–	–	16
– Tang Yan Qin	(resigned on 16 December 2014)	115	–	–	115
		306	–	–	306
		2,264	633	22	2,919

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2014

15. DIRECTORS', CHIEF EXECUTIVE'S AND EMPLOYEES' EMOLUMENTS *(Continued)*

a) Directors' and chief executive's emoluments *(Continued)*

		Fees HK$'000	Salaries and other benefits HK$'000	Retirement benefits scheme contributions HK$'000	Total HK$'000
Year ended 31 December 2013					
Executive directors					
– Yao Yuan	(removed on 20 May 2016)	1,524	276	15	1,815
– Zhao Chao	(appointed on 24 April 2013 and removed on 5 June 2015)	82	–	–	82
– Hu Jun	(resigned on 7 June 2013)	–	–	–	–
– Yu Ti Jun	(redesignated as non-executive director on 24 April 2013 and removed on 20 May 2016)	40	–	–	40
– Chien Hoe Yong, Henry	(resigned on 23 April 2014)	253	1,117	15	1,385
– Zhou Li Qun	(appointed on 24 April 2013 and resigned on 8 January 2015)	82	–	–	82
		1,981	1,393	30	3,404
Non-executive director					
– Yu Ti Jun	(redesignated as non-executive director on 24 April 2013 and removed on 20 May 2016)	80	–	–	80
Independent non-executive directors					
– Hu Jin Hua	(resigned on 24 April 2014)	120	–	–	120
– Lee Sze Ho, Henry	(resigned on 12 June 2014)	120	–	–	120
– Tang Yan Qin	(resigned on 16 December 2014)	120	–	–	120
		360	–	–	360
		2,421	1,393	30	3,844

Mr. Chien Hoe Yong, Henry was also the Chief Executive of the Company and his emoluments disclosed above include those for services rendered by him as the Chief Executive. Following the resignation of Mr. Chien Hoe Yong, Henry, Mr. Yao Yuan acted as the Chief Executive of the Company on a temporary basis until he was removed on 20 May 2016.

Neither the Chief Executive nor any of the directors waived any emoluments during either year.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2014

15. DIRECTORS', CHIEF EXECUTIVE'S AND EMPLOYEES' EMOLUMENTS *(Continued)*

b) Employees' emoluments

Of the five individuals with the highest emoluments in the Group, two (2013: two) were executive directors of the Company whose emoluments are included in the disclosures above. The emoluments of the remaining three (2013: three) individuals were as follows:

	2014 **HK$'000**	2013 HK$'000
Salaries, allowances and benefits in kind	**2,669**	4,653
Retirement benefits scheme contributions	**113**	30
	2,782	4,683

Out of the total employees' emoluments of HK$2,782,000, HK$1,336,000, was related to ex-employees who had left the Company.

Note: The bonus is determined based on performance of the Group and the current market environment.

Their emoluments were within the following bands:

	2014 **Number of employees**	2013 Number of employees
Nil to HK$1,000,000	**2**	2
HK$1,000,001 to HK$1,500,000	**1**	–
HK$3,000,001 to HK$3,500,000	**–**	1
	3	3

As disclosed in note 2(e) to the consolidated financial statements, a substantial part of the accounting records is no longer accessible and the ex-directors and ex-employees 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2014

16. DIVIDENDS

No dividend was paid or proposed during 2014, nor has any dividend been proposed since the end of the reporting period.

17. 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:

	2014 **HK$'000**	2013 HK$'000
Loss		
Loss for the purposes of basic and diluted loss per share		
Loss for the year attributable to owners of the Company	**(868,182)**	(1,056,705)

	2014	2013
Number of shares		
Weighted average number of ordinary shares for the purpose of calculation of basic and diluted loss per share	**4,383,892,800**	4,384,150,553

For the years ended 31 December 2014 and 2013, the computation of diluted loss per share does not assume the exercise of the Company's outstanding share options since their exercise would result in a decrease in loss per share.

The denominators used are the same as those detailed above for both basic and diluted loss per share.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2014

18. PROPERTY, PLANT AND EQUIPMENT

	Buildings	Plant and equipment	Laboratory and office Equipment	Motor vehicles	Leasehold improvements	Furniture and fixtures	Buildings under construction	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
COST								
At 1 January 2013	345,250	113,720	10,419	7,989	10,302	640	426	488,746
Exchange adjustments	10,348	4,273	308	205	356	11	5	15,506
Additions	3,487	19,209	157	565	1,846	12	–	25,276
Transfer	431	–	–	–	–	–	(431)	–
Disposals	–	(757)	(88)	(401)	–	–	–	(1,246)
At 31 December 2013 and 1 January 2014	359,516	136,445	10,796	8,358	12,504	663	–	528,282
Exchange adjustments	–	–	(91)	(8)	–	–	–	(99)
Additions	–	–	86	–	–	–	–	86
Disposal	–	–	–	(1,000)	–	–	–	(1,000)
Derecognition of Shanghai Subsidiaries	(359,516)	(136,445)	(7,150)	(7,020)	(12,504)	(663)	–	(523,298)
At 31 December 2014	–	–	3,641	330	–	–	–	3,971
ACCUMULATED DEPRECIATION								
At 1 January 2013	66,351	71,819	2,822	6,092	3,137	401	–	150,622
Exchange adjustments	2,272	2,969	95	149	154	5	–	5,644
Provided for the year	18,280	13,127	955	539	2,528	52	–	35,481
Eliminated on disposals	–	(139)	(88)	(361)	–	–	–	(588)
At 31 December 2013 and 1 January 2014	86,903	87,776	3,784	6,419	5,819	458	–	191,159
Exchange adjustments	–	–	(51)	(1)	–	–	–	(52)
Provided for the year	–	–	466	30	–	–	–	496
Written back on disposal	–	–	–	(1,000)	–	–	–	(1,000)
Derecognition of Shanghai Subsidiaries	(86,903)	(87,776)	(1,847)	(5,381)	(5,819)	(458)	–	(188,184)
At 31 December 2014	–	–	2,352	67	–	–	–	2,419
CARRYING AMOUNTS								
At 31 December 2014	–	–	1,289	263	–	–	–	1,552
At 31 December 2013	272,613	48,669	7,012	1,939	6,685	205	–	337,123

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For the year ended 31 December 2014

18. PROPERTY, PLANT AND EQUIPMENT *(Continued)*

The above items of property, plant and equipment, except for buildings under construction, are depreciated on a straight-line basis at the following rates per annum:

Buildings	Over 5% or the term of the lease or land use rights, if shorter
Plant and equipment	10% – 30%
Laboratory and office equipment	15% – 50%
Motor vehicles	10%
Leasehold improvements	10% – 33% or the term of the lease, if shorter
Furniture and fixtures	20% – 33%

The buildings held by the Group were erected on leasehold land under medium-term lease located in the PRC.

As at 31 December 2013, the Group has not yet obtained the ownership certificate of a building with a carrying amount of HK$2,960,000.

19. PREPAID LEASE PAYMENTS

	2014 HK$'000	2013 HK$'000
Analysed for reporting purpose as:		
Current assets	**–**	1,060
Non-current assets	**–**	43,283
	–	44,343

As at 31 December 2013, the Group's prepaid lease payments represent payments for land use rights under medium-term lease located in the PRC which is amortised on a straight-line basis over the term of the lease for 50 years.

As disclosed in note 43 to the consolidated financial statements, the Board was unable to gain access to the books and records of the Shanghai Subsidiaries, therefore, the prepaid lease payments of the Shanghai Subsidiaries brought forward from 2013 were not included in these consolidated financial statements.

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For the year ended 31 December 2014

20. GOODWILL

	HK$'000
COST	
At 1 January 2013	539,370
Exchange adjustments	14,261
At 31 December 2013 and 1 January 2014	553,631
Derecognition of Shanghai Subsidiaries	(553,631)
At 31 December 2014	–
IMPAIRMENT	
At 1 January 2013	102,210
Impairment loss recognised in the year	384,308
Exchange adjustments	19,998
At 31 December 2013 and 1 January 2014	506,516
Derecognition of Shanghai Subsidiaries	(506,516)
At 31 December 2014	–
CARRYING AMOUNTS	
At 31 December 2014	–
At 31 December 2013	47,115

For the year ended 31 December 2014

As disclosed in note 43 to the consolidated financial statements, the Board was unable to gain access to the books and records of the Shanghai Subsidiaries, therefore, the goodwill of the Shanghai Subsidiaries brought forward from 2013 was derecognised from these consolidated financial statements.

For the year ended 31 December 2013

For the purpose of impairment testing, the carrying amount of goodwill and other intangible assets had been allocated to their respective cash-generating units of PCD, HCD, MCM, ITTD and BDD at the end of the reporting period.

During the year ended 31 December 2013, except that impairment losses of approximately HK$170,000,000, HK$214,531,000 and HK$169,777,000 had been recognised in the cash-generating units of HCD, MCM and ITTD, respectively, the management of the Group determined that there was no impairment in any of the other cash-generating units.

The basis of calculation of the recoverable amounts of the above cash-generating units and their major underlying assumptions are summarised below:

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For the year ended 31 December 2014

20. GOODWILL *(Continued)*

a) Cash-generating unit for segment of PCD

The recoverable amount of this cash generating unit to which goodwill, other intangible assets and certain property, plant and equipment were allocated to has been determined based on a value in use calculation. For impairment purpose, the calculation used cash flow projections based on the financial budgets approved by management covering a 5-year period and using a discount rate of 16.1%, and the cash flows beyond 5 years were extrapolated using a zero growth rate. Another key assumption for the value in use calculation relates to the estimation of cash inflows which included budgeted sales and gross margin. Such estimation was based on the unit's past performance and management's expectations for future market development.

b) Cash-generating unit for segment of HCD

The recoverable amount of this cash generating unit to which goodwill, other intangible assets and certain property, plant and equipment were allocated to has been determined based on a value in use calculation. For impairment purpose, the calculation used cash flow projections based on the financial budgets approved by management covering a 5-year period and using a discount rate of 18.8%, and the cash flows beyond 5 years were extrapolated using a zero growth rate. Another key assumption for the value in use calculation related to the estimation of cash inflows which include budgeted sales and gross margin. Such estimation was based on the unit's past performance and management's expectations for future market development.

c) Cash-generating unit for segment of MCM

The recoverable amount of this cash generating unit to which goodwill, other intangible assets and certain property, plant and equipment were allocated to has been determined based on a value in use calculation. For impairment purpose, the calculation used cash flow projections based on the financial budgets approved by management covering a 5-year period and using a discount rate of 14.6%, and the cash flows beyond 5 years were extrapolated using a zero growth rate. Another key assumption for the value in use calculation related to the estimation of cash inflows which included budgeted sales and gross margin. Such estimation was based on the unit's past performance and management's expectations for future market development.

d) Cash-generating unit for segment of ITTD

The recoverable amount of this cash generating unit to which goodwill, other intangible assets and certain property, plant and equipment were allocated to has been determined based on a value in use calculation. For impairment purpose, the calculation used cash flow projections based on the financial budgets approved by management covering a 5-year period and using a discount rate of 18.4%, and the cash flows beyond 5 years were extrapolated using a zero growth rate. Another key assumption for the value in use calculation related to the estimation of cash inflows which included budgeted sales and gross margin. Such estimation was based on the unit's past performance and management's expectations for future market development.

e) Cash-generating unit for segment of BDD

The Group has estimated the recoverable amount of an individual asset of bio-drugs for impairment assessment. The recoverable amount of the technical know-how has been determined based on a value in use calculation. The technical know-how was acquired through acquisition of assets through acquisition of a subsidiary during the year ended 31 December 2011. In 2013, the Group was at the stage of trial testing to support its the application of a drug license as a prerequisite for market distribution. The Group expected to commence the market distribution of the products in 2015. For impairment purpose, the calculation used cash flow projections based on the financial budgets approved by management covering a 7-year period and using a discount rate of 15.1%, and the cash flows beyond 7 years were extrapolated using a zero growth rate. A 7-year period budget had been prepared by management because it usually takes 2 years before a drug license can be obtained from the State Food and Drug Administration for sales and distribution purposes. Another key assumption for the value in use calculation related to the estimation of cash inflows which include budgeted sales and gross margin. Such estimation was based on the management's expectations for future market development.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2014

21. OTHER INTANGIBLE ASSETS

	Note	**Customer base** HK$'000	**Technical know-how** HK$'000	**Total** HK$'000
COST				
At 1 January 2013		131,938	1,105,939	1,237,877
Exchange adjustments		3,914	29,818	33,732
At 31 December 2013 and 1 January 2014		135,852	1,135,757	1,271,609
Exchange adjustments		–	(7,622)	(7,622)
Derecognition of Shanghai Subsidiaries	(i)	(135,852)	(824,536)	(960,388)
At 31 December 2014		–	303,599	303,599
AMORTISATION AND IMPAIRMENT LOSS				
At 1 January 2013		40,490	121,128	161,618
Charge for the year		19,383	101,798	121,181
Exchange adjustments		2,975	8,456	11,431
Impairment loss recognised during the year		–	170,000	170,000
At 31 December 2013 and 1 January 2014		62,848	401,382	464,230
Charge for the year		–	4,082	4,082
Exchange adjustments		–	(7,118)	(7,118)
Derecognition of Shanghai Subsidiaries	(i)	(62,848)	(135,501)	(198,349)
Impairment loss recognised during the year	(ii)	–	23,820	23,820
At 31 December 2014		–	286,665	286,665
CARRYING AMOUNTS				
At 31 December 2014		–	16,934	16,934
At 31 December 2013		73,004	734,375	807,379

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21. OTHER INTANGIBLE ASSETS *(Continued)*

a) Year ended 31 December 2014

(i) As disclosed in note 43 to the consolidated financial statements, the Board was unable to gain access to the books and records of the Shanghai Subsidiaries, therefore, the customer base and technical know-how of the Shanghai Subsidiaies brought forward from 2013 were derecognised from these consolidated financial statements.

(ii) The Board is of the opinion that some technical know-how with a carrying amount of HK$23,820,000 are not expected to be used in the foreseeable future. Therefore, the technical know-how was impaired during the year ended 31 December 2014.

(iii) The balance of technical know-how of HK$16,934,000 as at 31 December 2014 represented the technical know-how acquired through the acquisition of a subsidiary, Genetel Shenzhen during the year ended 31 December 2009. However, the Board was unable to locate the purchase agreements nor the valuation reports at the date of the acquisition or other documents to support the costs and the carrying amount of these technical know-how. In this connection, the Board was unable to ascertain the accuracy of the costs and carrying amount of the intangible assets as at 31 December 2014 nor the amortisation or impairment loss charged to the consolidated statement of profit or loss and other comprehensive income for the year ended 31 December 2014.

The technical know-how represents the costs of design, development, production, sales and distributions of certain HPV detection products registered for use in the PRC. The Group has registered various technologies developed under the technical know-how with the State Intellectual Property Office of the PRC for patents. Each technology so registered would be protected for a period of 20 years starting from the day of registration.

The Board carried out an impairment assessment of the cash generating unit of the manufacture and trading of HPV detection products and related equipment. In preparing the cash flow projections, the Board used certain bases and assumptions and the historical performance of Genetel Shenzhen. The recoverable amount of the cash generating unit has been determined by the Board based on value in use calculations. As a result of the assessment, no impairment loss nor reversal of impairment loss was made for the year ended 31 December 2014.

During the year ended 31 December 2011, two medical device licenses had been obtained from the State Food and Drug Administration for products developed under the technical know-how. Both medical device licenses have a legal life of 4 years and would expire in the year 2015. The Board is of the opinion that the Group would be able to renew the medical device licenses continuously at minimal costs and hence extending the legal life of the medical device licenses. The Board is of the opinion that the technical know-how is expected to be available for use by the Group over a useful life of 15 years from the date of acquisition and hence it is amortised on a straight-line basis over 15 years.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2014

21. OTHER INTANGIBLE ASSETS *(Continued)*

b) Year ended 31 December 2013

Notes:

(i) Included in the balance as at 31 December 2013 was customer base of HK$37,450,000 acquired through the acquisition of subsidiaries during the year ended 31 December 2009. The customer base was amortised on a straight-line basis over 10 years.

In addition, included in the remaining balance as at 31 December 2013 was customer base of HK$35,554,000 acquired through the acquisition of a business during the year ended 31 December 2011. The customer base was amortised on a straight-line basis over 5 years.

(ii) Included in the balance of technical know-how as at 31 December 2013 was technical know-how of HK$45,340,000 acquired through the acquisition of subsidiaries during the year ended 31 December 2009. The technical know-how represented the costs of design, development, production, sales and distributions of certain HPV detection products registered for use in various countries. The Group registered various technologies developed under the technical know-how with the State Intellectual Property Office of the PRC for patents. Each technology so registered would be protected for a period of 20 years starting from the day of registration. During the year ended 31 December 2011, two medical device licenses had been obtained from the State Food and Drug Administration for products developed under the technical know-how. Both medical device licenses have a legal life of 4 years and will expire in the year 2015. The Directors are of the opinion that the Group would be able to renew the medical device licenses continuously at minimal costs and hence extending the legal life of the medical device licenses. The Directors are of the opinion that the technical know-how are expected to be available for use by the Group over a useful life of 15 years from the date of acquisition and hence the technical know-how are amortised on a straight-line basis over 15 years.

In addition, included in the balance of technical know-how as at 31 December 2013 was technical know-how of HK$283,182,000 acquired through the acquisition of a business during the year ended 31 December 2011. The technical know-how represented the design, development, production, sales and distributions of individualised molecular diagnostic products. During the year ended 31 December 2012, four medical device licenses had been obtained from the State Food and Drug Administration for products developed by the technical know-how of individualised target therapy division. The four medical device licenses have a legal life of 4 years and will expire in the year 2016. The Directors are of the opinion that the Group would be able to renew the medical device licenses continuously at minimal costs and hence extending the legal life of the medical device licenses. In the opinion of the Directors, the technical know-how are expected to be available for use by the Group over a useful life of 10 years from the date of acquisition. They are being amortised on a straight-line basis over 10 years.

Included in the balance of technical know-how as at 31 December 2013 was technical know-how of HK$330,100,000 acquired through the acquisition of assets through acquisition of a subsidiary during the year ended 31 December 2011. The technical know-how represented the design, development, production, sales and distributions of specialised monoclonal antibody drugs. The Group had registered the technology developed under the technical know-how with the State Intellectual Property Office of the PRC for patent. In 2013, the Group was at the stage of trial testing for the application of drug license as a prerequisite for market distribution. The Group expected to commence the market distribution of the products in 2016. In the opinion of the Directors, the technical know-how are expected to be available for use by the Group over a useful life of 10 years from the date of acquisition. They are amortised on a straight-line basis over 10 years.

Included in the balance as at 31 December 2013 is other technical know-how of HK$75,753,000 mainly representing the design, development, production, sales and distributions of certain non-cell corynebacterium parvum products registered in the PRC. The technical know-how was acquired during the year ended 31 December 2011 and were expected to be available for use by the Group over a useful life of 10 years. They are amortised on a straight-line basis over 10 years.

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22. INTEREST IN A JOINT VENTURE

	2014 HK$'000	2013 HK$'000
Cost of unlisted investment in a joint venture	–	26,049
Share of post-acquisition results and exchange adjustments	–	(11,284)
	–	14,765

As disclosed in note 2(e) to the consolidated financial statements, the Board was unable to take over the control of the Shanghai Subsidiaries which held the joint venture, the Board was also unable to gain access to the books and records of the joint venture namely 天津紅鬃馬醫院投資管理有限公司. Therefore, the Group was unable to equity account for the results of operations and the net assets of the joint venture for the year ended 31 December 2014. No financial information of the joint venture was made available for disclosure purpose. The interest in a joint venture of HK$14,765,000 brought forward from 2013 were not included in these consolidated financial statements. According to available information and as disclosed in note 46, the joint venture is named as a defendant and a joint defendant with Mr. Zhao and 上海銘源實業集團有限公司 in a number of legal cases in the PRC since 2014. In the opinion of the Board, the Group was unable to obtain the information of these legal cases. Therefore, the details of legal cases were not disclosed in these consolidated financial statements and the Board was unable to confirm if there was any financial impact of these legal cases on the Group.

Details of the Group's joint venture as at 31 December 2013 were as follows:

Name of entity	Form of entity	Place of establishment and operation	Proportion of registered ownership interest and voting rights held by the Group	Principal activities
天津紅鬃馬醫院投資管理有限公司	Incorporated	PRC	50%	Investing holding and its subsidiaries are engaged in provision of medical diagnostics, health check and medical appraisal services

Summarised financial information in respect of the Group's interest in the joint venture which is accounted for using the equity method in the consolidated financial statements for the year ended 31 December 2013 is set out below.

The summarised financial information below represents amounts shown in the joint venture's financial statements prepared in accordance with HKFRSs.

	2013 HK$'000
Current assets	18,935
Non-current assets	18,463
Current liabilities	9,053

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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22. INTEREST IN A JOINT VENTURE *(Continued)*

The above amounts of assets and liabilities include the following:

	2013 HK$'000
Cash and cash equivalents	1,306
Current financial liabilities (excluding trade and other payables and provisions)	2,786

	2013 HK$'000
Revenue	33,279
Profit for the year	548
Other comprehensive income for the year	646
Total comprehensive income for the year	1,194
Dividends received during the year	–

The above profit for the year include the following:

	2013 HK$'000
Depreciation and amortisation	3,935
Interest income	9
Interest expense	–
Income tax expense	183

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22. INTEREST IN A JOINT VENTURE *(Continued)*

Reconciliation of the above summarised financial information to the carrying amount of the interest in the joint venture recognised in the consolidated financial statements for the year ended 31 December 2013:

	2013 HK$'000
Net assets of the joint venture	28,345
Proportion of the Group's ownership interest	50%
	14,173
Other adjustments	592
Carrying amount of the Group's interest in the joint venture	14,765

23. INTEREST IN AN ASSOCIATE

	2014 HK$'000	2013 HK$'000
Cost of investment in an associate – unlisted	**–**	98,554
Share of post-acquisition results and exchange adjustments	**–**	(19,490)
Impairment loss on goodwill	**–**	(20,310)
	–	58,754

Details of the Group's associate at 31 December 2013 were as follows:

Name of entity	Form of entity	Place of incorporation and operation	Proportion of ownership interest and voting rights held by the Group	Principal activities
天津中新科炬生物制藥有限公司 ("NewScen Coast")	Incorporated	PRC	30%	Manufacturing and trading of diagnostic products and related equipment

As disclosed in note 2(e) to the consolidated financial statements, the Board was unable to take over the control of the Shanghai Subsidiaries which held the associate, the Group was also unable to gain access to the books and records of the associate. Therefore, the Group was unable to equity account for the results of operations and the net assets of the associate for the year ended 31 December 2014. No financial information for the year ended 31 December 2014 of the associate was made available for disclosure purpose. The interest in the associate of HK$58,754,000 brought forward from 2013 were derecognised from these consolidated financial statements.

Based on the available information, the Board noted that the Group was no longer the registered owner of the 30% equity interest in NewScen Coast in 2015. The new registered owners of the 30% equity interest in NewScen Coast were several individuals. In the absence of the books and records of NewScen Coast, the Board was unable to explain why the Group lost 30% equity interest in NewScen Coast nor the several individuals were became the new registered owners of the 30% equity interest in NewScen Coast.

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23. INTEREST IN AN ASSOCIATE *(Continued)*

Included in the cost of investment in an associate as at 31 December 2013 was a goodwill of nil arising on the acquisition of an associate. The movement of goodwill is set out below.

	HK$'000
COST	
At 1 January 2013 and 31 December 2013	20,310
IMPAIRMENT	
At 1 January 2013	–
Impairment loss recognized in the year	20,310
At 31 December 2013	20,310
CARRYING VALUES	
At 31 December 2013	–

During the year ended 31 December 2013, an impairment loss on goodwill in respect of the interest in an associate of HK$20,310,000 had been recognised. The recoverable amount of the interest in an associate had been determined based on a value in use calculation. For impairment purpose, the calculation uses cash flow projections based on the financial budgets approved by management covering a 5-year period and using a discount rate of 18.4%, and the cash flow beyond 5 years were extrapolated using a zero growth rate. Another key assumption for the value in use calculation related to the estimation of cash inflows which included budgeted sales and gross margin, such estimation was based on the unit's past performance and management's expectations for the market development.

Summarised financial information in respect of the Group's interest in an associate which was accounted for using the equity method in the consolidated financial statements for the year ended 31 December 2013 is set out below.

The summarised financial information below represents amounts shown in the associate's financial statements prepared in accordance with HKFRSs.

	2013 HK$'000
Current assets	38,597
Non-current assets	204,259
Current liabilities	22,840
Non-current liabilities	24,808

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23. INTEREST IN AN ASSOCIATE *(Continued)*

	2013 HK$'000
Revenue	38,226
Loss for the year	(39,428)
Other comprehensive income for the year	6,171
Total comprehensive loss for the year	(33,257)
Dividends received from the associate during the year	–

Reconciliation of the above summarised financial information to the carrying amount of the interest in the associate recognised in the consolidated financial statements:

	2013 HK$'000
Net assets of the associate	195,208
Proportion of the Group's ownership interest	30%
	58,562
Goodwill	–
Other adjustments	192
Carrying amount of the Group's interest in the associate	58,754

24. AVAILABLE-FOR-SALE INVESTMENTS

	2014	2013
Shanghai Subsidiaries	**–**	–

As set out in note 2(e) to the consolidated financial statements, the Board was unable to direct the relevant activities of the Shanghai Subsidiaries which significantly affected the Shanghai Subsidiaries' returns and could not obtain any accounting records from their management, the Board was of the opinion that the Group had lost control over the Shanghai Subsidiaries. The Shanghai Subsidiaries had been derecognised from these consolidated financial statements of the Group as from 1 January 2014. The Shanghai Subsidiaries were therefore recognised by the Group as available-for-sale investments with a carrying value of HK$1 as the Board considered that there was no expectation of recovery from the Shanghai Subsidiaries. A list of the subsidiaries derecognised from these consolidated financial statements is set out in note 41.

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25. INVENTORIES

	2014 HK$'000	2013 HK$'000
Raw materials	**2,534**	12,205
Work in progress	**691**	5,996
Finished goods	**806**	6,430
	4,031	24,631
Less: write-down of inventories	**(106)**	–
	3,925	24,631

26. LOAN RECEIVABLE

	2014	2013
Loan receivable	**82,500**	118,000
Interest receivable	**1,238**	–
Total	**83,738**	118,000
Less: Impairment loss	**(83,738)**	–
	–	118,000

Pursuant to an undated loan agreement entered into between 牟清, an individual in the PRC (the "Borrower") and a subsidiary of the Company, namely Sita Financial Consultant Limited ("Sita Financial"), Sita Financial advanced a loan of HK$118,000,000 to the Borrower for a period of two years. As disclosed in the consolidated financial statements for the year ended 31 December 2013, the Borrower was a shareholder of an associate of the Group. The loan was bearing interest at 6% per annum, and repayable in June 2013. The loan was secured by the shares held by the Borrower in the associate. On 20 June 2013, a supplementary agreement was entered into with the Borrower under which the loan receivable continued to bear interest at 6% per annum and the maturity date of the loan receivable was extended to 29 June 2014. According to the available books and records of the Group, the loan of HK$118,000,000 was received through the current account with SHMY Biochip during the year ended 31 December 2014. However, as the Board was unable to gain access to the books and records of SHMY Biochip, the Board was unable to confirm if the loan of HK$118,000,000 and the related loan interest of HK$3,510,000 was actually received by SHMY Biochip.

On 14 November 2014, Sita Financial entered into another loan agreement with the Borrower. Pursuant to the loan agreement, Sita Financial lent a loan of RMB66,000,000 (equivalent to HK$82,500,000) to the Borrower. The loan was bearing interest at 1% per month and repayable on 16 May 2015. In addition, the loan agreement stipulated that the loan was secured by the Borrower's 21% shareholding interest in the Company. However, the Board noted that there was only one director's signature on the board minutes approving the loan and the security as stated on the board minutes was the Borrower's 21% shareholding interest in NewScen Coast, an associate of the Group held by the Borrower instead of the 21% shareholding interest in the Company as stated in the loan agreement. In addition, based on the available information, the Board noted that the Borrower was neither a shareholder of the Company nor a shareholder of the associate of the Group. The Board was unable to verify if the Borrower held 21% shareholding interest in the Company. According to the available accounting records, the loan was made to the Borrower 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 Borrower. The Board was unable to explain the inconsistency in respect of the securities named in the two documents. Up to the date of approval of these consolidated financial statements, the loan together with the interest receivables remain outstanding. Therefore, full impairment loss totalling HK$83,738,000 on the loan and interest receivables was made during the year ended 31 December 2014.

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27. TRADE AND OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS

	Note	2014 HK$'000	2013 HK$'000
Trade receivables	(a)	**15,849**	184,718
Bills receivable		**–**	2,094
Less: allowance for doubtful debts	(b)	**(322)**	(15,050)
		15,527	171,762
VAT recoverable		**–**	2,848
Prepayments		**327**	5,241
Deposits paid to suppliers		**331**	–
Utility deposits		**394**	–
Other receivable (2014: net of allowance for doubtful debts of HK$957,000)	(c)	**1**	13,553
		16,580	193,404

The trade receivables mainly represented the amounts receivable from the End Users. Upon receiving settlements of the trade receivables from the End Users, Genetel Shenzhen would refund the receipts in advance to the distributors and pay the distributors the technical service fees net of appropriate value added tax incurred by Genetel Shenzhen in issuing sales invoices for the distributors.

(a) The Group normally allows a credit period of up to 270 days to its customers, which may be extended for selected customers depending on their trade volume and settlement history with the Group.

The following is an aging analysis of the trade and bills receivables, net of allowance for doubtful debts presented based on the invoice date:

	2014 HK$'000	2013 HK$'000
0 – 60 days	**6,846**	78,237
61 – 90 days	**2,598**	25,308
91 – 180 days	**4,478**	43,630
181 – 270 days	**1,382**	15,142
Over 270 days	**223**	9,445
	15,527	171,762

Included in the Group's trade and bills receivables are debtors with an aggregate carrying amount of HK$4,465,000 (2013: HK$9,445,000) which were past due at the end of the reporting period for which the Group had not provided for impairment loss. As there has not been a significant change in credit quality, the amounts are still considered recoverable. The Group does not hold any collateral over these balances.

An aging analysis of trade and bills receivables which were past due but not impaired as at 31 December 2014 based on the due date was as follows:

	2014 HK$'000	2013 HK$'000
Neither past due nor impaired	**11,062**	162,317
Overdue by		
1 – 60 days	**2,437**	2,261
61 – 90 days	**458**	1,686
91 – 180 days	**1,180**	–
181 – 270 days	**385**	5,498
Over 270 days	**5**	–
	4,465	9,445
	15,527	171,762

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For the year ended 31 December 2014

27. TRADE AND OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS *(Continued)*

(b) In determining the recoverability of trade and bills receivables, the Group considers any change in the credit quality of the trade and bills receivables from the date credit was initially granted up to the end of the reporting period. The concentration of credit risk is limited as the customer base is large and unrelated. The Board believes that there is no further credit provision required in excess of the allowance for doubtful debts already provided for in the consolidated financial statements.

Movement in the allowance for doubtful debts

	2014 HK$'000	2013 HK$'000
Balance at the beginning of the year	**15,050**	14,616
Impairment losses recognised on receivables	**322**	–
Derecognition of the Shanghai Subsidiaries	**(15,050)**	–
Exchange adjustment	**–**	434
Balance at the end of the year	**322**	15,050

The Board noted that there were trade receivables of RMB228,000 (equivalent to HK$285,000) brought forward from 2013 recorded in the books of Genetel Shenzhen which had been outstanding for over several years. There were no subsequent settlements of these long outstanding trade receivables up to the date of approval of these consolidated financial statements. In this connection, together with other irrecoverable trade receivables of HK$37,000, an impairment loss on trade receivables of HK$322,000 was made for the year ended 31 December 2014.

Before accepting a new customer, the Group assesses and understands the potential customer's credit quality and defines its credit limits. Credit limits attributed to each customer are reviewed regularly.

(c) Other receivables

As at 31 December 2014, there were other receivables of HK$3,759,000 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 HK$2,802,000 due to the same parties brought forward from 2013. Although the Board was unable to locate the relevant supporting documents to substantiate these other receivables and receipts in advance, the Board considered that these long outstanding other receivables and receipts in advance with the same parties can be offset with each other. In this connection, an impairment loss of HK$957,000 on the other receivables after set off of the receipts in advance was charged to the consolidated statement of profit or loss and other comprehensive income for the year ended 31 December 2014.

28. AMOUNT DUE FROM A DIRECTOR

Director's current account disclosed pursuant to section 78 of Schedule 11 to the new Hong Kong Companies Ordinance (Cap. 622), with reference to section 161B of the predecessor Hong Kong Companies Ordinance (Cap. 32) is as follows:

				Maximum amount outstanding during the year	
Director	Term of loan	**Balance at 31 December 2014 HK$'000**	Balance at 31 December 2013 HK$'000	**2014 HK$'000**	2013 HK$'000
Yao Yuan	Unsecured, non-interest bearing, Repayable on demand	**–**	640	**640**	640

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29. AMOUNTS DUE FROM RELATED PARTIES

	Note	2014 HK$'000	2013 HK$'000
– 上海銘康商務信息咨詢有限公司	(ii)	–	17,263
– 上海銘源實業集團有限公司(“上海銘源實業”)	(i)	–	640
– 上海銘源度假村有限公司	(i)	–	832
– 上海銘麒酒店管理有限公司	(i)	–	107
– 上海亞都物業管理有限公司	(i)	–	13
– Senior management	(iii)	–	87
		–	18,942

Note:

(i) 上海銘源實業 was a substantial shareholder of the Company with significant influence over the Company and owned by Mr. Yao Yuan and Mr. Iu Chung. 上海銘源度假村有限公司, 上海銘麒酒店管理有限公司 and 上海亞都物業管理有限公司 are subsidiaries of 上海銘源實業. These amounts are non-trade in nature.

(ii) A non-controlling interest of a subsidiary of the Group. The amount was non-trade in nature.

(iii) The amount was due from the Company's former Chief Financial Officer and the amount was non-trade in nature.

The above amounts were unsecured, non-interest bearing and repayable on demand.

Details of the Group's transactions with related parties are set out in note 40.

30. PLEDGED BANK DEPOSITS AND BANK BALANCES AND CASH

a) Pledged bank deposits

	2014 HK$'000	2013 HK$'000
Balance as at 31 December	–	35,863

As disclosed in note 43 to the consolidated financial statements, the Board was unable to gain access to the books and records of the Shanghai Subsidiaries. Therefore, the pledged bank deposits brought forward from 2013 were derecognised from these consolidated financial statements.

The pledged bank deposits as at 31 December 2013 carried fixed interest rate of 3.30% per annum. Pledged bank deposits represented deposits pledged to a bank to secure banking facilities granted to the Group and would be released upon the settlement of relevant short term bank borrowings and other loans. As at 31 December 2013, deposits amounting to HK$35,863,000 had been pledged to secure short-term bank loans and were therefore classified as current assets.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2014

30. PLEDGED BANK DEPOSITS AND BANK BALANCES AND CASH *(Continued)*

b) Bank balances and cash

	2014 **HK$'000**	2013 HK$'000
Balance as at 31 December	**5,752**	49,726

i) The Board noted that there were two bank payments of US$1,400,000 (equivalent to HK$10,845,000) and US$1,239,000 (equivalent to HK$9,600,000) credited to a bank account (the "MY Bank Account") of a subsidiary namely, Ming Yuan Property Management Limited ("MY Property") on 31 March 2014 and 1 April 2014 respectively. The funds were made by two companies unknown to the Board. On 1 April 2014, there was a fund transfer of HK$20,000,000 from the MY Bank Account to a company which is also unknown to the Board. On 3 May 2014, there was a withdrawal of HK$400,000 in form of a cash cheque. All these transactions were recorded by MY Property in the current account with the Company and subsequently through the current account with Ming Yuan Investments Group Limited and finally transferred to the current account with SHMY Biochip. The Board was unable to find out the nature and purpose of these bank transactions nor the relationship of these parties with the Group.

ii) As disclosed in note 43 to the consolidated financial statements, the Board was unable to gain access to the books and records of the Shanghai Subsidiaries, therefore, the bank balances and cash of HK$44,770,000 of the Shanghai Subsidiaries bought forward from 2013 were derecognised from these consolidated financial statements.

iii) Bank balances and cash comprises bank balances and cash held by the Group and short-term bank deposits that are interest-bearing at market rate. All bank deposits are with a maturity of three months or less. As at 31 December 2014, the bank deposits carried interest at prevailing market rate at 0.35% (2013: 0.35%) per annum.

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For the year ended 31 December 2014

31. TRADE AND OTHER PAYABLES

	Note	2014 HK$'000	2013 HK$'000
Trade payables	(a)	**193**	10,256
Receipts in advance	(b)	**3,773**	15,168
Technical service fees payable	(c)	**10,297**	–
Accrued expenses		**4,329**	4,889
Other tax payable		**578**	12,828
Equipment deposits received	(d)	**331**	–
Other payable		**42**	5,203
Other loans		**–**	3,842
Others	(e)	**4,055**	19,972
		23,598	72,158

As disclosed in note 43 to the consolidated financial statements, the Board was unable to gain access to the books and records of the Shanghai Subsidiaries. Therefore, the trade and other payables of the Shanghai Subsidiaries were derecognised from these consolidated financial statements.

(a) Trade payables

The following is an aging analysis of the trade payables presented based on the invoice date:

	2014 HK$'000	2013 HK$'000
0 – 60 days	**186**	5,074
61 – 90 days	**–**	410
Over 90 days	**7**	4,772
	193	10,256

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2014

31. TRADE AND OTHER PAYABLES *(Continued)*

(b) Receipts in advance

Payments received from the distributors upon delivery of goods to the End Users were recorded as receipts in advance. According to the Board, the Group is required to refund the receipts in advance to the distributors upon receiving settlements of the related trade receivables from the End Users. As such, the payments received from the distributors were recorded as receipts in advance.

As mentioned in note 27(c), the Board noted that there were long outstanding receipts in advance of HK$2,802,000 brought forward from previous years due to the same parties with long outstanding balances recorded under other receivables. Therefore, the long outstanding receipts in advance of HK$2,802,000 and the other receivables with the same parties were offset with each other.

(c) Technical service fees payables

The balances represented technical service fees payable to the distributors, the details of which are set out in note 13.

(d) Equipment deposits received

According to the Sales Agreements entered into between the distributors and Genetel Shenzhen, Genetel Shenzhen shall provide an equipment to each of the End Users for reading the results of HPV testing. The distributors are required to pay a security deposit to Genetel Shenzhen for using the equipment. Genetel Shenzhen shall refund the security deposits to the distributors upon cessation of business activities with the End Users. The Board considered that the cost of the equipment was a marketing cost and therefore the cost of the equipment was being charged to the profit or loss when incurred.

(e) Others

Year ended 31 December 2014

The balance of HK$4,055,000 included an amount of HK$4,010,000 due to 香港港龍科技有限公司 recorded in the books of Genetel Shenzhen. The Board noted that the amount due to 香港港龍科技有限公司 was bought 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 were 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 this connection, the Board was unable to confirm the existence and nature of the amount of HK$4,010,000 due to 香港港龍科技有限公司.

Year ended 31 December 2013

As disclosed in the consolidated financial statements for the year ended 31 December 2013, the balance included an amount of approximately RMB8,000,000 (equivalent to approximately HK$10,091,000) advanced by an independent third party for the potential business cooperation during the year ended 31 December 2013. The amount was interest-free, unsecured and repayable on demand. As no agreement had been reached in relation to this potential business cooperation, the entire amount had been repaid to the independent third party after 31 December 2013. In the absence of the books and records of the Unconsolidated Subsidiaries, the Board was unable to confirm if the RMB8,000,000 was actually repaid to the independent third party after 31 December 2013 as disclosed in the consolidated financial statements for the year ended 31 December 2013.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2014

32. BANK BORROWINGS

	2014 HK$'000	2013 HK$'000
Secured bank borrowing	–	208,834
Carrying amount repayable:		
– On demand or within one year	–	208,834

As disclosed in note 43 to the consolidated financial statements, the Board was unable to gain access to the books and records of the Shanghai Subsidiaries. Therefore, the bank borrowings of the Shanghai Subsidiaries brought forward from 2013 were not included in these consolidated financial statements.

As at 31 December 2013, the exposure of the Group's fixed-rate borrowings and the contractual maturity date are as follows:

	2013 HK$'000
Fixed-rate bank borrowings which due:	
– Within one year	115,912

The range of effective interest rates on the Group's bank borrowings are as follows:

	2013 HK$'000
Effective interest rate:	
Fixed-rate borrowings	6.00% – 7.98%
Variable-rate borrowings	6.00% – 6.60%

As at 31 December 2013, the Group's bank borrowings were denominated in RMB, the functional currency of the relevant group entities.

As at 31 December 2013, the Group's unutilised amount of banking facilities was approximately HK$24,194,000.

33. INCOME TAX PAYABLE

	2014 HK$'000	2013 HK$'000
Balance as at 31 December	358	27,024

(a) As disclosed in note 43 to the consolidated financial statements, the Board was unable to gain access to the books and records of the Shanghai Subsidiaries. Therefore, the income tax payable of HK$26,983,000 relating to the Shanghai Subsidiaries brought forward from 2013 was derecognised from these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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33. INCOME TAX PAYABLE *(Continued)*

(b) The income tax payable as at 31 December 2014 included an income tax payable of RMB802,000 (equivalent to HK$1,002,000) made on a marketing fee of RMB3,400,000 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.

(c) As disclosed in note 13 to the consolidated financial statements, certain technical service fees of HK$14,486,000 for the year ended 31 December 2014 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.

34. DEFERRED TAX LIABILITIES

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

	Withholding tax on undistributed profits of the PRC subsidiaries	**Fair value adjustment on other intangible assets from business combination**	**Total**
	HK$'000	HK$'000	HK$'000
At 1 January 2013	52,625	150,238	202,863
Charge (credit) to profit or loss	6,051	(18,778)	(12,727)
Exchange adjustments	1,651	1,255	2,906
At 31 December 2013 and 1 January 2014	60,327	132,715	193,042
Charge (credit) to profit or loss	332	(6,975)	(6,643)
Exchange adjustments	(19)	(127)	(146)
Derecognition of Shanghai Subsidiaries (Note 43)	(11,575)	(121,380)	(132,955)
Write back of unreconciled deferred tax liabilities (Note 14)	(48,041)	–	(48,041)
At 31 December 2014	1,024	4,233	5,257

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34. DEFERRED TAX LIABILITIES *(Continued)*

As at 31 December 2014, the Group had unused tax losses of HK$65,348,000 per tax return submitted available for offset against future profits. As at 31 December 2013, the Group had unused tax losses of HK$87,686,000 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.

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 2014 and 2013, deferred taxation has been provided for in full in respect of undistributed profits retained by the PRC entities.

As disclosed in note 43 to the consolidated financial statements, the Board was unable to gain access to the books and records of the Shanghai Subsidiaries. Therefore, the deferred tax liabilities of the Shanghai Subsidiaries brought forward from 2013 were derecognised from these consolidated financial statements.

In addition, the Board was unable to reconcile the deferred tax liabilities relating to the undistributed profits of the PRC subsidiaries, and therefore, the Board recognised the unreconciled difference of HK$48,041,000 as “write back of unreconciled deferred tax liabilities” to the consolidated statement of profit and loss and other comprehensive income.

35. SHARE CAPITAL

	Number of shares	**Value**
		HK$’000
Ordinary shares of HK$0.05 each		
Authorised:		
At 1 January 2013, 31 December 2013 and 31 December 2014	6,000,000,000	300,000
Issued and fully paid:		
At 1 January 2013	4,384,212,800	219,211
Share repurchased and cancelled	(320,000)	(16)
At 31 December 2013 and 31 December 2014	4,383,892,800	219,195

There were no movements in the Company’s issued share capital for the year ended 31 December 2014.

During the year of 2013, the Company repurchased its own shares through the Stock Exchange as follows:

Month of repurchase	**No. of ordinary shares of HK$0.05 each**	**Price per share**		**Aggregate consideration paid**
		Highest	**Lowest**	
		HK$	HK$	HK$
October 2013	320,000	1.127	1.127	360,595

The above shares were cancelled upon repurchase.

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36. SHARE OPTIONS

Equity-settled share option scheme

On 31 May 2004 (the "Adoption Date"), the Company adopted a share option scheme ("the Scheme") for the primary purpose of providing incentives to any directors (including executive directors, non-executive directors and independent non-executive directors) and employees of the Company and its subsidiaries (the "Group") and any advisors, consultants, distributors, contractors, suppliers, agents, customers, business partners, joint venture business partners, promoters, service providers to the Group ("Participants") who the board of directors considers, in its sole discretion, have contributed or shall contribute to the Group. The Scheme shall be valid and effective for a period of 10 years commencing on the Adoption Date. Under the Scheme, the board of directors of the Company may grant options to the Participants to subscribe for shares in the Company.

As at 31 December 2013, the number of shares in respect of which options had been granted and remained outstanding under the Scheme was 3,300,000 representing 0.08% of the shares of the Company in issue at that date. The share options have been lapsed during the year ended 31 December 2014.

The maximum number of shares which may be issued upon exercise of all outstanding options under the Scheme shall not exceed 10% of the shares in issue at the Adoption Date unless the Company obtains a fresh approval from its shareholders.

The maximum number of shares issued and to be issued upon exercise of all options granted and to be granted to a specifically identified single grantee under the Scheme shall not (when aggregated with any shares which are subject of options under any other share option scheme(s) of the Company) in any 12-month period exceed 1% of the shares in issue.

Options granted must be taken up within 28 days of the date of grant, upon payment of HK$1 per grant. In each grant of options, the board of directors may at its discretion determine the specific vesting period and exercisable period. Options may be exercised at any time from the date of grant of the share option (or after the expiry of the vesting period, if any) to the 10th anniversary of the date of grant. The exercise price is determined by the directors of the Company, and will not be less than the higher of (i) the closing price of the Company's shares on the date of grant; (ii) the average closing price of the Company's shares for the five business days immediately preceding the date of grant; and (iii) the nominal value of the Company's shares. The directors of the Company has final discretion on the exercise price.

The following table discloses movements of the Company's share options during the years:

Grantee	**Date of grant**	**Exercise price**	**Vesting period**	**Exercisable period**	**Number of shares issuable under options outstanding**
Employees	9.10.2009	HK$0.802	N/A	9.10.2009 – 30.5.2014	3,300,000
Exercisable at 31 December 2013					3,300,000
Lapsed during the year					(3,300,000)
Exercisable at 31 December 2014					–

There were no share options granted, exercised or cancelled during the years ended 31 December 2014 and 2013.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2014

37. CAPITAL COMMITMENTS

	2014 HK$'000	2013 HK$'000
Capital expenditure contracted for but not provided in the consolidated financial statements in respect of:		
– property, plant and equipment	–	74
– other intangible assets (Note 11)	–	27,000
	–	27,074

38. OPERATING LEASE COMMITMENTS

The Group as lessee

During the current year, the Group made minimum lease payments under operating leases of HK$1,725,000 (2013: HK$6,701,000) in respect of its office properties and staff quarters.

At the end of the reporting period, the Group had commitments for future minimum lease payments under non-cancellable operating leases which would fall due as follows:

	2014 HK$'000	2013 HK$'000
Within one year	1,137	6,120
In the second to fifth year inclusive	605	11,187
Over five years	–	2,482
	1,742	19,789

Operating lease payments represent rentals payable by the Group for certain of its office properties and staff quarter. Leases are negotiated for a term ranging from one year to eight years and rentals are fixed for a range of one year to eight years.

39. PLEDGE OF ASSETS

At the end of the reporting period, the following assets were pledged to secure general banking and credit facilities granted to the Group:

	2014 HK$'000	2013 HK$'000
Prepaid lease payments	–	44,343
Buildings	–	269,202
Pledged bank deposits	–	35,863
	–	349,408

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For the year ended 31 December 2014

40. RELATED PARTY TRANSACTIONS

The Group's related parties are as follows:

Name	Relationship with the Group
Mr. Yao Yuan	An ex-chairman and ex-director of the Company
Mr. Iu Chung	An ex-director of the Company and director of certain PRC subsidiaries of the Group
上海銘源實業集團有限公司 ("上海銘源實業")	A company owned as to 50% by Mr. Yao Yuan and 40% by Mr. Iu Chung
上海銘源度假村有限公司	A subsidiary of 上海銘源實業
上海銘麒酒店管理有限公司	A subsidiary of 上海銘源實業

During the reporting period, the Group had the following material related party transactions with its related parties.

a) Details of the Group's balances with related parties are set out below.

	Note	**2014 HK$'000**	2013 HK$'000
Amount due from a former director			
Yao Yuan		–	640
Amounts due from related parties	29		
– 上海銘康商務信息咨詢有限公司		–	17,263
– 上海銘源實業集團有限公司 ("上海銘源實業")		–	640
– 上海銘源度假村有限公司		–	832
– 上海銘麒酒店管理有限公司		–	107
– 上海亞都物業管理有限公司		–	13
– Senior management		–	87
		–	18,942
Amounts due from subsidiaries of a joint venture	(i)	–	721
Amount due to a related company			
– 上海銘源實業	(ii)	–	2,930
Amount due to a subsidiary of a joint venture	(iii)	–	10,519
		–	3,930

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40. RELATED PARTY DISCLOSURES *(Continued)*

a) *(Continued)*

Notes:

(i) The amount was non-trade in nature. During the year ended 31 December 2013, the ex-directors reviewed the financial position of the subsidiaries of the joint venture and were of the opinion that the recovery of the outstanding balance of subsidiaries of the joint venture was remote and the entire amount of HK$33,859,000 has been impaired.

(ii) 上海銘源實業 was a substantial shareholder of the Company with significant influence over the Company. The amount was non-trade in nature.

(iii) Except for an amount of HK$3,290,000 being trade in nature, the remaining balance was non-trade in nature. Credit period granted to the related company was 180 days.

The above amounts are unsecured, non-interest bearing and repayable on demand, except for the amounts due from subsidiaries of a joint venture as mentioned in note (i) above.

b) Key management personnel remuneration

The remuneration of directors and other members of key management during the year was as follows.

	2014 **HK$'000**	2013 HK$'000
Short-term benefits	**5,036**	5,651
Post-employment benefits	**118**	67
	5,154	5,718

The remuneration of directors and key executives is determined by the remuneration committee having regard to the performance of individuals and market trends.

c) Other related party transactions

	Note	**2014** **HK$'000**	2013 HK$'000
Subcontracting fees to SHMY Biochip	(i)	**186**	–
Payments made to ex-directors			
Mr. Yao Yuan	(ii)	**1,256**	–
Mr. Chien Hoe Yong, Henry	(ii)	**264**	–
		1,520	–
Payment made to Mr. Iu Chung	(ii)	**370**	–
Impairment loss on amount due from an ex-director			
Mr. Chien Hoe Yong, Henry	(iii)	**1,249**	–
Rental expenses paid to 上海銘源房地產開發經營有限公司		**–**	733
Building management expenses paid to 上海亞都物業管理有限公司		**–**	50
Impairment loss on amount due from			
a related company, 上海銘源實業	(iv)	**1,015**	–

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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40. RELATED PARTY DISCLOSURES *(Continued)*

c) Other related party transactions *(Continued)*

Note:

i) Purchase from SHMY Biochip

During the year ended 31 December 2014, SHMY Biochip provided subcontracting services to Genetel Shenzhen for production of HPV detection products for HK$186,000.

ii) Payments made to Mr. Iu Chung and ex-directors, Mr. Yao Yuan and Mr. Chien Hoe Yong, Henry

The Board noted that Genetel Shenzhen paid HK$1,256,000 to Mr. Yao Yuan and HK$264,000 to Mr. Chien Hoe Yong, Henry, the ex-directors of the Company before the Board took over the control of the Group in May 2016. The payments were approved by the ex-directors of the Company who have left the Company. The Board could not identify the purpose, substance and nature of the payments and could not locate any supporting documentation for verification purpose. Since the cash has been paid out before 31 December 2014, the Board recognised the amount of HK$1,520,000 as administrative expenses in the consolidated statement of profit or loss and other comprehensive income for the year ended 31 December 2014.

The Board noted that Genetel Shenzhen paid HK$370,000 to Mr. Iu Chung. The payment was approved by the ex-directors of the Company who have left the Company. The Board could not identity the purpose of the payment and could not locate any supporting documents for verification purpose. Since the cash has been paid out, the Board recognised the amount of HK$370,000 as administrative expenses in the consolidated statement of profit or loss and other comprehensive income.

iii) Impairment loss on amount due from an ex-director, Mr. Chien Hoe Yong Henry

The Board noted that there was an amount of RMB1,000,000 (equivalent to HK$1,249,000) paid to an ex-director, Mr. Chien prior to 2014. The amount was recorded in the current account with SHMY Biochip in previous years. The Board could not identify the purpose, substance and the nature of the payment made to Mr. Chien. However, the Board considered that the amount due from an ex-director should be separately classified from the current account with SHMY Biochip and therefore a reclassification has been made in the current year. The Board also considered that the amount due from Mr. Chien would not be recoverable, therefore, an impairment loss of HK$1,249,000 on amount due from an ex-director has been made in the consolidated statement of profit or loss and other comprehensive income for the year ended 31 December 2014.

iv) Impairment loss on amount due from a related company

The impairment loss on amount due from a related company was made on the amount of HK$1,015,000 due from 上海銘源實業 brought forward from 2013 in the books of Genetel Shenzhen. The Board noted that there was no documentation to confirm the nature and existence of the amount due from 上海銘源實業 and there was no subsequent settlement up to the date of approval of these consolidated financial statements. Therefore, the Board considered that the amount due from 上海銘源實業 could not be recovered. Therefore, an impairment loss of HK$1,015,000 was made on amount due from a related company and charged to the consolidated statement of profit or loss and other comprehensive income for the year ended 31 December 2014.

During the year ended 31 December 2013, the Group obtained corporate guarantees from 上海銘源實業 for an aggregate amount of RMB69,800,000 (equivalent to HK$89,400,000) given to two banks to secure the banking facilities granted to the Group, of which an amount of RMB5,800,000 (equivalent to HK$7,429,000) was unutilised as at 31 December 2013.

During the year ended 31 December 2013, Mr. Iu Chung issued a personal guarantee for RMB50,000,000 (equivalent to HK$64,040,000) given to a bank to secure the banking facilities granted to the Group, of which the amount has been fully utilised as at 31 December 2013. The related personal guarantee was released in 2014 upon the expiry of the banking facilities.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2014

41. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY

a) Particulars of the Company's principal subsidiaries are as follows:

Name of subsidiary	Place of incorporation/ establishment	Particulars of issued share/ registered capital	Percentage of equity attributable to the Company				Principal activities
			Direct		Indirect		
			2014	2013	2014	2013	
Consolidated subsidiaries							
MY Technology Limited	British Virgin Island	US$1	-	–	100%	100%	Inactive
Ming Yuan Property Management Limited	Hong Kong	HK$2	-	–	100%	100%	Provision of management services
HD Global Limited (Note iv)	British Virgin Island	US$2,000,000	-	–	100%	100%	Investment holding
Genetel Pharmaceuticals (Shenzhen) Company Limited (Note i)	PRC	RMB8,027,700	-	–	100%	100%	Manufacturing and trading of HPV chips and related equipment
Premier Asset Investment Limited (Note iv)	British Virgin Island	US$1	-	–	100%	100%	Investment holding
Splendid Victory Holding Limited	British Virgin Island	US$1	100%	100%	-	–	Investment holding
Derecognised subsidiaries (Note iii)							
上海數康生物科技有限公司 (Note i)	PRC	RMB40,000,000	-	–	100%	100%	Research and development activities
湖州數康生物科技有限公司 (Note i)	PRC	RMB10,000,000	-	–	100%	100%	Manufacturing and trading of protein chips and related equipment
上海銘源數康生物芯片有限公司 (Note i)	PRC	US$29,800,000	-	–	100%	100%	Manufacturing and trading of protein chips and related equipment
Shanghai Kang Pei Bio-medical Company Limited (Note i)	PRC	RMB10,000,000	-	–	75%	75%	Provision of medical diagnostic, health check and medical appraisal services
上海源奇生物醫藥科技有限公司 (Note ii)	PRC	RMB2,000,000	-	–	70%	70%	Research, development and trading of individualized molecular diagnostic products
上海慧普生物醫藥科技有限公司 (Note ii)	PRC	RMB2,000,000	-	–	80%	80%	Research, development and trading of specialized monoclonal antibody drugs

Note:

(i) These companies are registered in the form of wholly-owned foreign investment enterprise.

(ii) These companies are registered in the form of sino-foreign joint venture. The Group lost 70% equity interest in 上海源奇生物醫藥科技有限公司 in February 2016, the details of which are set out in note 2(f)(i) to the consolidated financial statements.

(iii) The derecognised subsidiaries were accounted for as available-for-sale investment as stated in note 24 to the consolidated financial statements.

(iv) According to the company search records, the shares of Premier Asset Investment Limited and HD Global Limited were charged in favour of a third party as at 31 December 2014. To the best knowledge of the Board, the convertible bonds relating to the share charges had been fully converted into shares of the Company in previous years. Therefore, the share charges appeared in the company search records should had been already discharged as at 31 December 2014.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2014

41. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY *(Continued)*

a) Particulars of the Company's principal subsidiaries are as follows: *(Continued)*

The above table lists the subsidiaries of the Company which, in the opinion of the Directors, principally affected the results or assets of the Group. To give details of other subsidiaries would, in the opinion of the Directors, result in particulars of excessive length.

None of the subsidiaries had any loan capital subsisting at the end of the reporting period or at any time during the year.

b) Subsidiaries with material non-controlling interests

The table below shows details of non-wholly-owned subsidiaries of the Group that have material non-controlling interests:

Name of subsidiary	Place of incorporation and principal place of business	Proportion of ownership interests and voting rights held bynon-controlling interest 2013	Loss allocated to non-controlling interest 31.12.2013 HK$'000	Accumulated non-controlling interest 31.12.2013 HK$'000
Shanghai Kang Pei Bio-medical Company Limited	PRC	25%	(62,426)	(35,915)
上海源奇生物醫药科技有限公司	PRC	30%	(61,603)	20,388
上海慧普生物醫药科技有限公司	PRC	20%	(7,408)	70,017
			(131,437)	54,490

Summarised financial information in respect of each of the Group's subsidiaries that has material non-controlling interests is set out below. The summarized financial information below represents amounts before intragroup eliminations.

(i) Shanghai Kang Pei Bio-medical Company Limited

	2013 HK$'000
Current assets	86,659
Non-current assets	74,324
Current liabilities	(44,268)
Non-current liabilities	(11,397)
Equity attributable to owners of the Company	141,233
Non-controlling interests	(35,915)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2014

41. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY *(Continued)*

b) Subsidiaries with material non-controlling interests *(Continued)*

(i) Shanghai Kang Pei Bio-medical Company Limited (Continued)

	1.1.2013 to 31.12.2013 HK$'000
Revenue	71,459
Expense	(323,316)
Loss for the year	(251,857)
Loss attributable to the owners of the Company	(189,431)
Loss attributable to non-controlling interests	(62,426)
Loss for the year	(251,857)
Other comprehensive expense attributable to the owners of the Company	(1,366)
Other comprehensive expense attributable to non-controlling interests	(456)
Other comprehensive expense for the year	(1,822)
Total comprehensive expense attributable to the owners of the Company	(190,797)
Total comprehensive expense attributable to non-controlling interests	(62,882)
Total comprehensive expense for the year	(253,679)
Dividend paid to non-controlling interests	Nil
Net cash inflow from operating activities	23,552
Net cash outflow from investing activities	(10,326)
Net cash outflow from financing activities	(8,231)
Net cash inflow	4,995

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2014

41. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY *(Continued)*

b) Subsidiaries with material non-controlling interests *(Continued)*

(ii) 上海源奇生物医药科技有限公司

	2013 HK$'000
Current assets	12,948
Non-current assets	324,650
Current liabilities	(17,597)
Non-current liabilities	(76,752)
Equity attributable to owners of the Company	222,861
Non-controlling interests	20,388

	1.1.2013 to 31.12.2013 HK$'000
Revenue	29,467
Expense	(234,809)
Loss for the year	(205,342)
Loss attributable to the owners of the Company	(143,739)
Loss attributable to non-controlling interests	(61,603)
Loss for the year	(205,342)
Other comprehensive income attributable to the owners of the Company	5,471
Other comprehensive income attributable to non-controlling interests	2,346
Other comprehensive income for the year	7,817
Total comprehensive expense attributable to the owners of the Company	(138,268)
Total comprehensive expense attributable to non-controlling interests	(59,257)
Total comprehensive expense for the year	(197,525)
Dividend paid to non-controlling interests	Nil
Net cash outflow from operating activities	(1,820)
Net cash outflow from investing activities	(789)
Net cash inflow from financing activities	2,523
Net cash outflow	(86)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2014

41. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY *(Continued)*

b) Subsidiaries with material non-controlling interests *(Continued)*

(iii) 上海慧普生物醫药科技有限公司

	2013 HK$'000
Current assets	26,220
Non-current assets	331,353
Current liabilities	(3,827)
Equity attributable to owners of the Company	283,729
Non-controlling interests	70,017

	1.1.2013 to 31.12.2013 HK$'000
Revenue	1,038
Expense	(38,082)
Loss for the year	(37,044)
Loss attributable to the owners of the Company	(29,636)
Loss attributable to non-controlling interests	(7,408)
Loss for the year	(37,044)
Other comprehensive income attributable to the owners of the Company	8,565
Other comprehensive income attributable to non-controlling interests	2,140
Other comprehensive income for the year	10,705
Total comprehensive expense attributable to the owners of the Company	(21,071)
Total comprehensive expense attributable to non-controlling interests	(5,268)
Total comprehensive expense for the year	(26,339)
Dividend paid to non-controlling interests	Nil
Net cash outflow from operating activities	704
Net cash outflow from investing activities	(644)
Net cash inflow from financing activities	–
Net cash inflow	60

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2014

42. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

	2014 HK$'000	2013 HK$'000
Non-current assets		
Investments in subsidiaries	1	1
Current assets		
Prepayments	293	–
Utility deposits	288	–
Amounts due from subsidiaries	146,518	150,444
Amount due from a substantial shareholder	320	–
Other receivables	–	550
Bank balances and cash	12	2
	147,431	150,996
Current liabilities		
Accrued expenses and other payables	2,088	1,423
Amounts due to subsidiaries	71,683	71,866
	73,771	73,289
Net current assets	73,660	77,707
Total assets less current liabilities	73,661	77,708
Capital and reserves		
Share capital	219,195	219,195
Reserves	(145,534)	(141,487)
Total equity	73,661	77,708

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2014

42. STATEMENT OF FINANCIAL POSITION OF THE COMPANY *(Continued)*

Movement in reserves

	Share capital HK$'000	Share premium HK$'000	Share options reserves HK$'000	Contributed surplus HK$'000 (Note)	Accumulated losses HK$'000	Total HK$'000
At 1 January 2013	219,211	1,177,668	1,140	12,804	(147,622)	1,263,201
Repurchase of shares (Note 35)	(16)	(345)	–	–	–	(361)
Loss and total comprehensive expense for the year	–	–	–	–	(1,185,132)	(1,185,132)
At 31 December 2013	219,195	1,177,323	1,140	12,804	(1,332,754)	77,708
At 1 January 2014	219,195	1,177,323	1,140	12,804	(1,332,754)	77,708
Forfeiture of share options	–	–	(1,140)	–	1,140	–
Loss and total comprehensive loss for the year	–	–	–	–	(4,047)	(4,047)
At 31 December 2014	219,195	1,177,323	–	12,804	(1,335,661)	73,661

Note: The contributed surplus of the Company represents an amount due to a former holding company waived upon the change of the substantial shareholders in 2002.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2014

43. LOSS ARISING FROM SHANGHAI SUBSIDIARIES

As disclosed in note 2, the Board of the Company has been unable to gain access to the books and records of Shanghai Subsidiaries and no financial information of the Shanghai Subsidiaries were made available. As a result, the financial performance and financial position were not consolidated into these consolidated financial statements. The balances relating to the Shanghai Subsidiaries brought forward from 31 December 2013, derived by the Board from incomplete records, were charged to the consolidated statement of profit or loss and other comprehensive income and resulted a loss of HK$804,506,000. The details are set out below.

	Note	HK$'000
Net assets of the Shanghai Subsidiaries:		
Property, plant and equipment	18	335,114
Prepaid lease payments	19	44,343
Goodwill	20	47,115
Other intangible assets	21	762,039
Interest in a joint venture	22	14,765
Interest in an associate	23	58,754
Deposit paid for the acquisition of property, plant and equipment		2,030
Inter group current accounts		31,854
Inventories		21,767
Trade and other receivables		182,891
Amount due from a director	28	640
Amounts due from related parties		17,911
Amount due from subsidiaries of a joint venture		721
Pledged bank deposits	30(a)	35,863
Bank balances and cash	30(b)	44,770
Trade and other payables		(59,174)
Amounts due to related companies		(2,930)
Amount due to a subsidiary of a joint venture		(10,519)
Bank borrowings	32	(208,834)
Income tax payable		(26,983)
Deferred tax liabilities	34	(132,955)
Net assets		1,159,182
Non-controlling interests relating to the Shanghai Subsidiaries		(54,490)
Translation reserves relating to the Shanghai Subsidiaries		(300,186)
Loss arising from Shanghai Subsidiaries		**804,506**

Cash and cash equivalents for the purposes of the consolidated statement of cash flows represented the cash outflow of approximately RMB44,770,000 relating to loss on Shanghai Subsidiaries.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2014

44. RETIREMENT BENEFIT PLANS

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

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

The total cost charged to profit or loss of HK$993,000 (2013: HK$4,979,000) represents contributions payable to these schemes by the Group for the year ended 31 December 2014. As at 31 December 2014 and 2013, no contribution was due and unpaid.

45. TRANSFER OF FINANCIAL ASSETS

As at 31 December 2013, the Group transferred a bills receivable to a bank by discounting the receivable on a full recourse basis. In the opinion of the Directors, the Group has transferred the significant risks and rewards relating to the discounted bills receivable, and the Group's obligation to the corresponding counterparty was discharged in accordance with the commercial practice in the PRC. The risk of default in the payment of the discounted bills receivable is low because the discounted bills receivable is issued in and guaranteed by a reputable PRC bank. Accordingly, the relevant asset and liability were not recognized in the consolidated financial statements. As at 31 December 2013, the maximum exposure to the Group that may result from a default of the discounted bills receivable is HK$3,842,000.

The derecognised discounted bills receivable would mature within 3 months.

The Directors consider that the carrying amount of the discounted bills receivable approximates its fair value.

The undiscounted cash outflow that may be required to repurchase the derecognised bills receivable discounted to bank approximates its carrying amount.

The finance costs recognised for bills receivable discounted to a bank are HK$Nil (2013: HK$148,000) for the year ended 31 December 2014.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2014

46. 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 during the year ended 31 December 2014 and the other litigations subsequent to 31 December 2014 as disclosed in the note 47 (a) and (b) 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 2014 and those as disclosed under events after the reporting period in note 47 (a) and (b) 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 to 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2014

46. LITIGATIONS AND CONTINGENT LIABILITIES *(Continued)*

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, 天津創華投資咨詢有限公司 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, 天津創華投資咨詢有限公司 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, 天津創華投資咨詢有限公司 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 and reimbursement of expenses and RMB30,000,000 for special bonus totalling HK$41,347,000 plus interest. The Company's legal representative signed a consent summons with Mr. Chien's solicitors on 25 October 2016 (the "Consent Summons") 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.

47. EVENTS AFTER THE REPORTING PERIOD

a) Litigations against the Group

i) 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 as 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 ex-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.

ii) 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2014

47. EVENTS AFTER THE REPORTING PERIOD *(Continued)*

a) Litigations against the Group *(Continued)*

iii) 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.

iv) 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 富海隆投資咨詢服務有限公司 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.

v) 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 Immediate 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.

vi) 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 to be shunned by the general public, causing irreparable and irrecoverable damage to the character and good reputation of Mr. Lam Ping Cheung. 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2014

47. EVENTS AFTER THE REPORTING PERIOD *(Continued)*

b) Litigations taken by the Group

i) 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.

il) 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.

c) Loss of ownership interest in a subsidiary

As disclosed in note 2(f)(i), the Group lost the ownership interest in a 70% owned subsidiary namely 上海源奇生物醫藥科技有限公司 on 18 February 2016.

d) 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 year 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 for HK$2,008,000.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2014

47. EVENTS AFTER THE REPORTING PERIOD *(Continued)*

d) Financing obtained by the Group *(Continued)*

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 agreement amounted for HK$34,000,000.

iii) On 27 September 2016 and on 23 August 2018, the Company and Eastern Wealth entered into two loan agreements respectively 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 loans and interest within 2 years from the date of the loan agreements. Subject to the 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 Eastern Wealth.

On 18 May 2018, the Company and Eastern Wealth entered into a supplementary 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 interest thereon was extended to 26 September 2020. Pleas 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.

FINANCIAL SUMMARY

A summary of the consolidated results and of the assets and liabilities of the Group for the past five financial periods is set out below:

(A) RESULTS

	For the year ended 31 December				
	2010 HK$'000	2011 HK$'000	2012 HK$'000	2013 HK$'000	**2014** **HK$'000**
Revenue	370,273	301,559	322,797	404,150	**45,243**
Profit (loss) before tax	157,173	63,357	(132,041)	(1,176,878)	**(922,339)**
Income tax (expense)/credit	(37,063)	(17,158)	(7,146)	(11,264)	**54,157**
Profit (loss) for the year from continuing operations	120,110	46,199	(139,187)	(1,188,142)	**(868,182)***
(Loss) profit for the year from discontinued operation	3,412	312	11,445	–	**–**
Profit (loss) for the year	123,522	46,511	(127,742)	(1,188,142)	**(868,182)**
Dividends recognised as distribution during the year	35,158	–	–	–	**–**
Attributable to:					
Owners of the Company	122,438	49,662	(111,646)	(1,056,705)	**(868,182)**
Non-controlling interests	1,084	(3,151)	(16,096)	(131,437)	**–**
	123,522	46,511	(127,742)	(1,188,142)	**(868,182)**

* The loss for the year ended 31 December 2014 included the loss arising from Shanghai Subsidiaries of HK$804,506,000.

(B) ASSETS AND LIABILITIES/EQUITY

	At 31 December				
	2010 HK$'000	2011 HK$'000	2012 HK$'000	2013 HK$'000	**2014** **HK$'000**
Total assets	2,291,708	3,073,756	2,865,194	1,753,436	**44,743**
Total liabilities	(448,210)	(579,724)	(481,390)	(514,507)	**(29,213)**
	1,843,498	2,494,032	2,383,804	1,238,929	**15,530**
Equity attributable to owners of the Company	1,800,426	2,287,797	2,201,907	1,184,439	**15,530**
Non-controlling interests	43,072	206,235	181,897	54,490	**–**
	1,843,498	2,494,032	2,383,804	1,238,929	**15,530**