泰 达

# 天津泰達生物醫學工程股份有限公司
# Tianjin TEDA Biomedical Engineering Company Limited

*(a joint stock company incorporated in the People's Republic of China with limited liability)*

**(Stock code: 8189)**

## ANNOUNCEMENT ON ANNUAL RESULTS FOR 2018

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

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

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



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

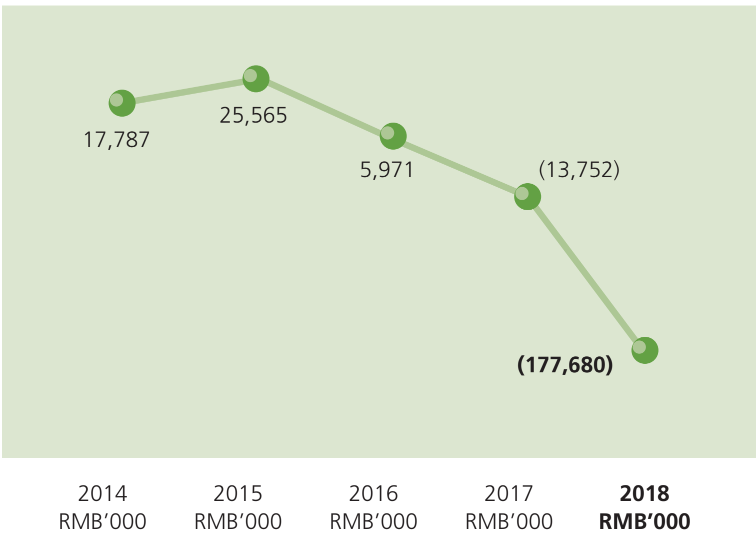
# FINANCIAL HIGHLIGHTS

## Financial Summary

| | For the year ended 31 December | | | | |
|---|---|---|---|---|---|
| | 2014 | 2015 | 2016 | 2017 | **2018** |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | ***RMB'000*** |
| **Results** | | | | | |
| Turnover | 470,267 | 501,590 | 389,278 | 375,907 | **351,898** |
| Gross profit | 78,712 | 96,721 | 78,806 | 53,205 | **1,707** |
| Gross margin | 16.74% | 19.28% | 20.24% | 14.15% | **0.49%** |
| Profit/(loss) attributable to the shareholders | 17,787 | 25,565 | 5,971 | (13,752) | **(177,680)** |
| Earnings/(loss) per share | 1.46 cents | 1.76 cents | 0.37 cents | (0.82) cents | **(9.58) cents** |

| | As at 31 December | | | | |
|---|---|---|---|---|---|
| | 2014 | 2015 | 2016 | 2017 | **2018** |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | ***RMB'000*** |
| **Assets & Liabilities** | | | | | |
| Total assets | 432,622 | 458,505 | 459,628 | 707,878 | **448,980** |
| Total liabilities | 188,924 | 114,072 | 110,244 | 133,078 | **157,312** |
| Equity attributable to the shareholders | 198,021 | 319,937 | 325,908 | 422,954 | **273,006** |

**Profit/(loss) attributable to the shareholders**



*The Board of Directors (the "Board") of Tianjin TEDA Biomedical Engineering Company Limited ("TEDA Biomedical" or the "Company") is pleased to announce the audited consolidated results of the Company and its subsidiaries (hereafter collectively referred to as the "Group") for the year ended 31 December 2018 as follows:*

## CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

*For the year ended 31 December 2018*

| | *Notes* | **2018** *RMB* | 2017 *RMB* |
|---|---|---|---|
| Revenue | *2* | **351,897,658** | 375,906,530 |
| Cost of sales | | **(350,190,803)** | (322,701,103) |
| Gross profit | | **1,706,855** | 53,205,427 |
| Other income and losses, net | | **(3,680,687)** | (5,377,946) |
| Selling and distribution costs | | **(21,726,586)** | (14,755,804) |
| Administrative expenses | | **(32,195,141)** | (36,227,996) |
| Research and development expenses | | **(11,667,239)** | (9,294,266) |
| Finance costs | *4* | **(2,762,567)** | (3,699,137) |
| Impairment loss of intangible asset | | **(227,361,866)** | (999,266) |
| Gain on deemed disposal of an associate | | **–** | 1,995,152 |
| Share of loss of associates | | **(2,792,016)** | (5,303,132) |
| Loss before income tax | *4* | **(300,479,247)** | (20,456,968) |
| Income tax | *5* | **(158,686)** | (826,716) |
| Loss for the year | | **(300,637,933)** | (21,283,684) |
| Loss and total comprehensive income for the year | | **(300,637,933)** | (21,283,684) |
| Attributable to: | | | |
| Owners of the Company | | | |
| – Loss for the year | | **(177,679,819)** | (13,752,052) |
| Non-controlling interests | | | |
| – Loss for the year | | **(122,958,114)** | (7,531,632) |
| | | **(300,637,933)** | (21,283,684) |
| Loss per share | | | |
| – Basic and diluted | *7* | **(9.58)** | (0.82) |

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION
*As at 31 December 2018*

| | Notes | 2018 RMB | 2017 RMB |
|---|---|---|---|
| **Non-current assets** | | | |
| Property, plant and equipment | | **71,338,431** | 69,898,228 |
| Goodwill | | **12,149,807** | 12,149,807 |
| Intangible asset | *8* | **18,045,202** | 262,145,201 |
| Interest in associates | | **17,660,069** | 13,452,085 |
| Prepaid land lease payments | | **13,018,908** | 10,686,887 |
| Prepayments and other receivables | *10* | **12,401,826** | 12,274,365 |
| Amounts due from associates | | **–** | 11,389,137 |
| Other financial assets | | **10,463,767** | 8,263,711 |
| **Total non-current assets** | | **155,078,010** | 400,259,421 |
| **Current assets** | | | |
| Inventories | | **85,618,751** | 92,699,923 |
| Trade and bills receivables | *9* | **76,699,301** | 107,490,288 |
| Prepayments and other receivables | *10* | **66,745,283** | 69,342,030 |
| Amounts due from associates | | **12,683,044** | 493,907 |
| Financial assets at fair value through profit or loss | | **9,025,622** | – |
| Cash and bank balances | | **43,129,493** | 37,592,277 |
| **Total current assets** | | **293,901,494** | 307,618,425 |
| **Total assets** | | **448,979,504** | 707,877,846 |
| **Current liabilities** | | | |
| Trade payables | *11* | **40,175,528** | 22,123,954 |
| Contract liabilities | | **22,264,411** | – |
| Other payables and accruals | | **42,121,228** | 41,566,505 |
| Amount due to a director | | **–** | 50,000 |
| Amount due to a shareholder | | **–** | 2,512,595 |
| Amount due to non-controlling interests | | **1,120,528** | – |
| Other financial liabilities | | **1,633,200** | 26,633,200 |
| Current tax liabilities | | **496,978** | 191,801 |
| Bank borrowings | *12* | **49,500,000** | 40,000,000 |
| **Total current liabilities** | | **157,311,873** | 133,078,055 |
| **Net current assets** | | **136,589,621** | 174,540,370 |
| **Total assets less current liabilities** | | **291,667,631** | 574,799,791 |
| **NET ASSETS** | | **291,667,631** | 574,799,791 |
| **Capital and reserves attributable to owners of the Company** | | | |
| Share capital | *13* | **189,450,000** | 169,500,000 |
| Reserves | | **83,555,905** | 253,453,962 |
| Equity attributable to owners of the Company | | **273,005,905** | 422,953,962 |
| **Non-controlling interests** | | **18,661,726** | 151,845,829 |
| **TOTAL EQUITY** | | **291,667,631** | 574,799,791 |

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

*For the year ended 31 December 2018*

| | Share capital | Share premium | Surplus reserve | Capital reserve | Other reserve | Retained earnings/ (Accumulated losses) | Attributable to owners of the Company | Non–controlling interests | Total |
|---|---|---|---|---|---|---|---|---|---|
| | *Note 13* | *Note 14(i)* | *Note 14(ii)* | *Note 14(iii)* | *Note 14(v)* | *Note 14(iv)* | | | |
| | *RMB* | *RMB* | *RMB* | *RMB* | *RMB* | *RMB* | *RMB* | *RMB* | *RMB* |
| Balance as at 1 January 2017 | 159,500,000 | 154,667,871 | 3,717,696 | 2,541,404 | (22,032,403) | 27,513,103 | 325,907,671 | 23,475,523 | 349,383,194 |
| Loss and total comprehensive income for the year | – | – | – | – | – | (13,752,052) | (13,752,052) | (7,531,632) | (21,283,684) |
| Issue of new shares | 10,000,000 | 100,798,343 | – | – | – | – | 110,798,343 | – | 110,798,343 |
| Acquisition of subsidiaries | – | – | – | – | – | – | – | 135,901,938 | 135,901,938 |
| Balance as at 31 December 2017 | 169,500,000 | 255,466,214 | 3,717,696 | 2,541,404 | (22,032,403) | 13,761,051 | 422,953,962 | 151,845,829 | 574,799,791 |
| Initial application of HKFRS 9 | – | – | – | – | – | (19,686,408) | (19,686,408) | (1,488,515) | (21,174,923) |
| Restated balance as at 1 January 2018 | 169,500,000 | 255,466,214 | 3,717,696 | 2,541,404 | (22,032,403) | (5,925,357) | 403,267,554 | 150,357,314 | 553,624,868 |
| Loss and total comprehensive income for the year | – | – | – | – | – | (177,679,819) | (177,679,819) | (122,958,114) | (300,637,933) |
| Issue of new shares | 19,950,000 | 19,851,224 | – | – | – | – | 39,801,224 | – | 39,801,224 |
| Acquisition of non-controlling interests of a subsidiary | – | – | – | – | – | (578,933) | (578,933) | 578,933 | – |
| Dividends declared to non-controlling interest in 2018 *(Note i)* | – | – | – | – | – | – | – | (1,120,528) | (1,120,528) |
| Transfer from non-controlling interests to owners of the Company *(Note i)* | – | – | – | – | – | 8,195,879 | 8,195,879 | (8,195,879) | – |
| Balance as at 31 December 2018 | 189,450,000 | 275,317,438 | 3,717,696 | 2,541,404 | (22,032,403) | (175,988,230) | 273,005,905 | 18,661,726 | 291,667,631 |

*Note i:* Pursuant to the profit guarantee issued by a non-controlling interest in a subsidiary, SJKGC, the Company is eligible to preferentially appropriate USD2,750,000 included in the profit of the subsidiary for the year ended 31 December 2017. The appropriation was passed by the shareholders' meeting held in 2018 and resulted in a transfer from non-controlling interests to accumulated losses attributable to owners of the Company.

## 1. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

### (a) Adoption of new/revised HKFRSs – effective on 1 January 2018

| | |
|---|---|
| Annual Improvements to HKFRSs 2014-2016 Cycle | Amendments to HKFRS 1, First-time adoption of Hong Kong Financial Reporting Standards |
| Annual Improvements to HKFRSs 2014-2016 Cycle | Amendments to HKAS 28, Investments in Associates and Joint Ventures |
| Amendments to HKFRS 2 | Classification and Measurement of Share-based Payment Transactions |
| HKFRS 9 | Financial Instruments |
| HKFRS 15 | Revenue from Contracts with Customers |
| Amendments to HKFRS 15 | Revenue from Contracts with Customers (Clarifications to HKFRS 15) |
| Amendments to HKAS 40 | Transfers of Investment Property |
| HK(IFRIC)–Int 22 | Foreign Currency Transactions and Advance Consideration |

***Annual Improvements to HKFRSs 2014-2016 Cycle – Amendments to HKFRS 1, First-time Adoption of Hong Kong Financial Reporting Standards***

The amendments issued under the annual improvements process make small, non-urgent changes to standards where they are currently unclear. They include amendments to HKFRS 1, First-time Adoption of Hong Kong Financial Reporting Standards, removing transition provision exemptions relating to accounting periods that had already passed and were therefore no longer applicable.

The adoption of these amendments has no impact on these financial statements as the periods to which the transition provision exemptions related have passed.

***Annual Improvements to HKFRSs 2014-2016 Cycle – Amendments to HKAS 28, Investments in Associates and Joint Ventures***

The amendments issued under the annual improvements process make small, non-urgent changes to standards where they are currently unclear. They include amendments to HKAS 28, Investments in Associates and Joint Ventures, clarifying that a Venture Capital organisation's permissible election to measure its associates or joint ventures at fair value is made separately for each associate or joint venture.

The adoption of these amendments has no impact on these financial statements as the Group is not a venture capital organisation.

***Amendments to HKFRS 2 – Classification and Measurement of Share-Based Payment Transactions***

The amendments provide requirements on the accounting for the effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments; share-based payment transactions with a net settlement feature for withholding tax obligations; and a modification to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity-settled.

The adoption of these amendments has no impact on these financial statements as the Group does not have any cash-settled share-based payment transaction and has no share-based payment transaction with net settlement features for withholding tax.

***HKFRS 9 – Financial Instruments***

*(i) Classification and measurement of financial instruments*

HKFRS 9 replaces HKAS 39 Financial Instruments: Recognition and Measurement for annual periods beginning on or after 1 January 2018, bringing together all three aspects of the accounting for financial instruments: (1) classification and measurement; (2) impairment and (3) hedge accounting. The adoption of HKFRS 9 from 1 January 2018 has resulted in changes in accounting policies of the Group and the amounts recognised in the consolidated financial statements.

The following tables summarised the impact, net of tax, of transition to HKFRS 9 on the opening balance of reserves, retained earnings and NCI as of 1 January 2018 as follows (increase/(decrease)):

| | ***RMB*** |
|---|---|
| *Retained earnings* | |
| Retained earnings as at 31 December 2017 | 13,761,051 |
| Increase in expected credit losses ("ECLs") in trade receivables *(note 1(a)(ii) below)* | (19,686,408) |
| Restated accumulated losses as at 1 January 2018 | (5,925,357) |
| *Non-controlling interests* | |
| Non-controlling interests as at 31 December 2017 | 151,845,829 |
| Increase in ECLs in trade receivables *(note 1(a)(ii) below)* | (1,488,515) |
| Restated non-controlling interests as at 1 January 2018 | 150,357,314 |

Under HKFRS 9, except for certain trade receivables (that the trade receivables do not contain a significant financing component in accordance with HKFRS 15), an entity shall, at initial recognition, measure a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss ("FVTPL"), transaction costs. A financial asset is classified as: (i) financial assets at amortised cost ("amortised costs"); (ii) financial assets at fair value through other comprehensive income ("FVOCI"); or (iii) FVTPL (as defined in above). The classification of financial assets under HKFRS 9 is generally based on two criteria: (i) the business model under which the financial asset is managed and (ii) its contractual cash flow characteristics (the "solely payments of principal and interest" criterion, also known as "SPPI criterion"). Under HKFRS 9, embedded derivatives is no longer required to be separated from a host financial asset. Instead, the hybrid financial instrument is assessed as a whole for the classification.

A financial asset is measured at amortised cost if it meets both of the following conditions and it has not been designated as at FVTPL:

– It is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and

– The contractual terms of the financial asset give rise on specified dates to cash flows that meet the SPPI criterion.

A debt investment is measured at FVOCI if it meets both of the following conditions and it has not been designated as at FVTPL:

– It is held within a business model whose objective is to achieved by both collecting contractual cash flows and selling financial assets; and

– The contractual terms of the financial asset give rise on specified dates to cash flows that meet the SPPI criterion.

On initial recognition of an equity investment that is not held for trading, the Group could irrevocably elect to present subsequent changes in the investment's fair value in other comprehensive income. This election is made on an investment-by-investment basis. All other financial assets not classified at amortised cost or FVOCI as described above are classified as FVTPL. This includes all derivative financial assets. On initial recognition, the Group may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or FVOCI at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

The following accounting policies would be applied to the Group's financial assets as follows:

| | |
|---|---|
| FVTPL | FVTPL is subsequently measured at fair value. Changes in fair value, dividends and interest income are recognised in profit or loss. |
| Amortised cost | Financial assets at amortised cost are subsequently measured using the effective interest rate method. Interest income, foreign exchange gains and losses and impairment are recognised in profit or loss. Any gain on derecognition is recognised in profit or loss. |
| FVOCI (debt instruments) | Debt investments at fair value through other comprehensive income are subsequently measured at fair value. Interest income calculated using the effective interest rate method, foreign exchange gains and losses and impairment are recognised in profit or loss. Other net gains and losses are recognised in other comprehensive income. On derecognition, gains and losses accumulated in other comprehensive income are reclassified to profit or loss. |
| FVOCI (equity instruments) | Equity investments at fair value through other comprehensive income are measured at fair value. Dividend income is recognised in profit or loss unless the dividend income clearly represents a recovery of part of the cost of the investments. Other net gains and losses are recognised in other comprehensive income and are not reclassified to profit or loss. |

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

| **Financial assets** | **Original classification under HKAS 39** | **New classification under HKFRS 9** | **2018.1.1** *RMB* | **2017.12.31** *RMB* |
|---|---|---|---|---|
| Trade receivable | Loans and receivables | Amortised cost | 85,835,365 | 107,010,288 |
| Bills receivable | Loans and receivables | Amortised cost | 480,000 | 480,000 |
| Deposit and other receivables | Loans and receivables | Amortised cost | 2,259,866 | 2,259,866 |
| Amounts due from associates | Loans and receivables | Amortised cost | 11,883,044 | 11,883,044 |
| Other financial assets | FVTPL | FVTPL | 8,263,711 | 8,263,711 |
| Cash and bank balances | Loans and receivables | Amortised cost | 37,592,277 | 37,592,277 |

*(ii) Impairment of financial assets*

The adoption of HKFRS 9 has changed the Group's impairment model by replacing the HKAS 39 "incurred loss model" to the "expected credit losses ("ECLs") model". HKFRS 9 requires the Group to recognised ECL for trade receivables, bills receivable and financial assets at amortised costs earlier than HKAS 39. Cash and cash equivalents are subject to ECL model but the impairment is immaterial for the current period.

Under HKFRS 9, the losses allowances are measured on either of the following bases: (1) 12 months ECLs: these are the ECLs that result from possible default events within 12 months after the reporting date, and (2) lifetime ECLs: these are ECLs that result from all possible default events over the expected life of a financial instrument.

Measurement of ECLs

ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive. The shortfall is then discounted at an approximation to the assets' original effective interest rate.

The loss allowances for trade receivables are measured using HKFRS 9 simplified approach and calculated based on lifetime ECLs. The Group has established a provision matrix that is based on the Group's historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

For other debt financial assets, the ECLs are based on the 12-months ECLs. The 12-months ECLs is the portion of the lifetime ECLs that results from default events on a financial instrument that are possible within 12 months after the reporting date. However, when there has been a significant increase in credit risk since origination, the allowance will be based on the lifetime ECLs. When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECL, the Group considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Group's historical experience and informed credit assessment and including forward-looking information. The Group's debt investment at FVOCI are considered to have low credit risk since the issuers' credit rating are high.

The Group considers a financial asset to be in default when: (1) the borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realising security (if any is held); or (2) in the case of trade receivables, the financial asset is more than one year after initial recognition. The determination of default receivables is referenced to the historical settlement pattern of trade receivables as approximately 73% of trade receivables are settled within one year after the issuance of the sales invoice. Thus, the management of the Group considered that such determination is reasonable.

The maximum period considered when estimating ECL is the maximum contractual period over which the Group is exposed to credit risk.

Presentation of ECLs

Loss allowances for financial assets measured at amortised cost are deducted from the gross carrying amount of the assets. For debt investment at FVOCI, the loss allowance is recognised in OCI, instead of reducing the carrying amount of the assets.

## I. Impairment of trade receivables

As mentioned above, the Group applies the HKFRS 9 simplified approach to measure ECLs which recognises lifetime ECLs for all trade receivables. To measure the ECLs, trade receivables have been grouped based on shared credit risk characteristics and by the invoice date. The expected credit loss rate is determined by the historical settlement pattern of trade receivables for the past 3 years, which is the proportion of trade receivables yet to be settled after one year to the whole balance of trade receivables in each aging category. The publicly available information of the expected future market development of biological compound fertilisers has been considered in the application of the expected loss rate. The loss allowance as at 1 January 2018 was determined as follows for trade receivables:

| **1 January 2018** | **Within 3 months** | **More than 3 to 6 months** | **More than 6 to 12 months** | **Over 1 year** | **Total** |
|---|---|---|---|---|---|
| Expected loss rate *(%)* | 8% | 15% | 40% | 90% | |
| Gross carrying amount *(RMB)* | 55,946,439 | 23,931,145 | 19,383,954 | 23,760,602 | 123,022,140 |
| Loss allowance *(RMB)* | 4,420,687 | 3,597,072 | 7,775,681 | 21,393,336 | 37,186,776 |

The increase in loss allowance for trade receivables upon the transition to HKFRS 9 as of 1 January 2018 was RMB21,174,923. The loss allowances for trade receivables further increased by RMB3,817,278 during the year ended 31 December 2018.

## II. Impairment of bills receivable, other receivables and amounts due from associates

Other financial assets at amortised cost of the Group mainly represents bills receivable, other receivables and amounts due from associates. The Group has applied the ECL model and the impact is considered insignificant to the Group. No additional allowance for ECL is recognised upon the transition to HKFRS 9 as of 1 January 2018 and for the year ended 31 December 2018.

As a result of the above changes, the impact of the new HKFRS 9 impairment model did not result in additional impairment allowance as follow:

| | ***RMB*** |
|---|---|
| Loss allowance as at 1 January 2018 under HKAS 39 | 2,243,153 |
| Additional impairment recognised for bills receivable, other receivables and amounts due from associates | – |
| Loss allowance as at 1 January 2018 under HKFRS 9 | 2,243,153 |

*(iii) Hedge accounting*

Hedge accounting under HKFRS 9 has no impact on the Group as the Group does not apply hedge accounting in its hedging relationships.

*(iv) Transition*

The Group has applied the transitional provision in HKFRS 9 such that HKFRS 9 was generally adopted without restating comparative information. The reclassifications and the adjustments arising from the new ECLs rules are therefore not reflected in the statement of financial position as at 31 December 2017, but are recognised in the statement of financial position on 1 January 2018. This means that differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of HKFRS 9 are recognised in retained earnings and reserves as at 1 January 2018. Accordingly, the information presented for 2017 does not reflect the requirements of HKFRS 9 but rather those of HKAS 39.

The following assessments have been made on the basis of the facts and circumstances that existed at the date of initial application of HKFRS 9 (the "DIA"):

– The determination of the business model within which a financial asset is held;

– The designation and revocation of previous designations of certain financial assets and financial liabilities as measured at FVTPL; and

– The designation of certain investments in equity investments not held for trading as at FVOCI.

If an investment in a debt investment had low credit risk at the DIA, then the Group has assumed that the credit risk on the asset had not increased significantly since its initial recognition.

***HKFRS 15 – Revenue from Contracts with Customers***

HKFRS 15 supersedes HKAS 11 Construction Contracts, HKAS 18 Revenue and related interpretations. HKFRS 15 has established a five-step model to account for revenue arising from contracts with customers. Under HKFRS 15, revenue is recognised at the amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

The Group has adopted HKFRS 15 using the cumulative effect method without practical expedients. The Group considered that the cumulative effect of initially applying HKFRS 15 as an adjustment to the opening balance of retained earnings at the date of initial application (that is, 1 January 2018) is insignificant. As a result, the financial information presented for 2017 has not been restated.

Payments received in advance that are related to the sales of goods not yet delivered to customers are deferred and recognised as contract liabilities. Revenues are recognised when goods or services are delivered to customers. The Group does not expect to have any significant financing component as the period between the delivery of goods to the customers and payment by the customers does not exceed one year. As a result, the Group does not adjust any of the transaction prices for the effects of the time value of money.

The following table summarised the impact of adopting HKFRS 15 on the Group's consolidated statement of financial position as at 1 January 2018. There was no material impact on the Groups' consolidated statement of profit or loss and other comprehensive income for the year ended 31 December 2018 and its consolidated statement of cash flow for the year ended 31 December 2018.

Impact on the consolidated statement of financial position as of 1 January 2018:

| | ***RMB*** |
|---|---|
| **Liabilities** | |
| Current liabilities | |
| Other payable and accruals | (17,512,100) |
| Contract liabilities | 17,512,100 |
| Total liabilities | – |

Details of the new significant accounting policies and the nature of the changes to previous accounting policies in relation to the Group's revenue are set out below:

***Sales of biological compound fertilisers***

Customers obtain control of the biological compound fertilisers when these fertilisers are delivered to the customers. Revenue is thus recognised upon when the customers accepted the products. There is only one performance obligation. The Group determined that revenue from sales of goods is recognised at point in time when the goods are delivered and have been accepted.

*Right of return*

The Group's sales contracts with customers provide a right of return for sales of biological compound fertilisers within a reasonable period.

Under HKAS 18, revenue for these contracts was recognised when a reasonable estimate of the returns could be made, provided that all other revenue recognition criteria are met. If a reasonable estimate could not be made, such revenue would be deferred until the return period lapsed or a reasonable estimate could be made.

Under HKFRS 15, right of return gives rise to variable consideration. The variable consideration is estimated at contract inception and constrained until the associated uncertainty is subsequently resolved. The application of the constraint on variable consideration increases the amount of revenue that will be deferred. In addition, a refund liability and a right to recover returned goods assets are recognised.

No right to the returned goods are recognised as at 1 January 2018 as the sales return amount from customers is insignificant per historical operation experience of the Group.

*Volume rebate*

Some of the Group's contracts with customers from the sales of biological compound fertilisers provide customers a volume rebate policy and the volume rebate would be calculated based on the actual sale volume during the financial year.

Under HKAS 18, the Group estimated the expected volume rebates using the probability-weighted amount of rebates approach and recognised as a reduction of revenue as the sales are recognised. A provision of rebate will be recognised in trade and other payable.

Under HKFRS 15, volume rebates give rise to variable consideration. The Group apply the expected value method to estimate the variable consideration. A refund liability would be recognised based on the estimate of the expected to be paid to customer's volume-based rebates.

No adjustments from the right to the volume rebate are recognised as at 1 January 2018 as the basis of calculation of volume rebate is the annual sales, which is identical to the sales for the year to the customers and the Group has already fully recognised the respective volume rebate in the consolidated financial statements as per HKAS 18.

*Significant payment terms*

The credit term granted to customers is around 90 days as per sales contract. No significant financing component is noted in the contract.

*Nature of the goods transferred*

The goods are biological compound fertilisers that are directly sold to the customers or distributors by the Group. There is no performance obligation to arrange for another party to transfer the goods.

*Unsatisfied performance obligations*

In biological compound fertilisers industry, it is a common business practice for the Group to receive the contract considerations in advance, especially for new customers. Normally, the performance obligation is considered to be met only when the goods are delivered to the customers. As a result, there is no unsatisfied performance obligations.

***Sales from integrated elderly care and health care services***

Customers received the elderly care consultation and EEG diagnosis detection services when the services are provided. With respect to the sales from installation income of the EEG diagnosis detection services, the installation service is provided at a point in time when the installation service is completed within a short period of time and the control of the EEG diagnosis detection system has been passed to the customers. There is only one performance obligation. The Group determines that revenue from installation service is recognised at point in time when the installation service is provided and completed.

For the provision of elderly care consultation and EEG diagnosis detection processing services, the services are provided for a period of time. There is only one performance obligation as each of the services provided to the customers are not interrelated and completed when the relevant consultations and detection reports have been delivered. The Group determined that revenue from the provision of such services is recognised over time when the services are provided.

*Right of return or other variable considerations*

No right of return or other variable considerations are noted from the EEG diagnosis installation, detection and elderly care services.

*Significant payment terms*

No significant financing component is noted in the contract.

*Nature of the services transferred*

The services include elderly care consultation or EEG diagnosis detection and processing services that are directly delivered to the end customers, and 8% of the processing income would be shared from the revenue of the customers when the EEG diagnosis detection services are provided to the end customers. There is no performance obligation to arrange for another party to transfer the goods for both types of services.

*Unsatisfied performance obligations*

For the elderly care consultation services, most of the service contracts are signed and completed within the same financial year, and normally on a yearly basis. Only minimal amount of contracts are signed and completed across two financial years. As the amount is immaterial, no unsatisfied performance obligations are recognised.

For EEG diagnosis detection and processing services, the performance obligation is considered to be fulfilled when the EEG diagnosis detection services and relevant detection reports are delivered to the customers. There would only be minimal time difference between the provision of EEG diagnosis detection services and the delivery of detection reports, and also no failure of issuance of detection reports as per past experience. Therefore, no unsatisfied performance obligations are recognised.

For EEG diagnosis detection licensing services, the Group would share the customers' processing income only when they delivered the services to their end customers. Therefore, no unsatisfied performance obligations are recognised.

The amendments to HKFRS 15 included clarifications on identification of performance obligations; application of principal versus agent; licenses of intellectual property; and transition requirements.

The adoption of these amendments has no impact on these financial statements as the Group had not previously adopted HKFRS 15 and took up the clarifications.

***Amendments to HKAS 40, Investment Property – Transfers of Investment Property***

The amendments clarify that to transfer to or from investment properties there must be a change in use and provides guidance on making this determination. The clarification states that a change of use will occur when a property meets, or ceases to meet, the definition of investment property and there is supporting evidence that a change has occurred.

The amendments also re-characterise the list of evidence in the standard as a non-exhaustive list, thereby allowing for other forms of evidence to support a transfer.

The adoption of these amendments has no impact on these financial statements as the clarified treatment is consistent with the manner in which the Group has previously assessed transfers.

***HK(IFRIC)–Int 22 – Foreign Currency Transactions and Advance Consideration***

The Interpretation provides guidance on determining the date of the transaction for determining an exchange rate to use for transactions that involve advance consideration paid or received in a foreign currency and the recognition of a non-monetary asset or non-monetary liability. The Interpretations specifies that the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part thereof) is the date on which the entity initially recognises the non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration.

The adoption of these amendments has no impact on these financial statements as the Group has not paid or received advance consideration in a foreign currency.

**(b) New/revised HKFRSs that have been issued but are not yet effective**

The following new/revised HKFRSs, potentially relevant to the Group's financial statements, have been issued, but are not yet effective and have not been early adopted by the Group. The Group's current intention is to apply these changes on the date they become effective.

| | |
|---|---|
| HKFRS 16 | Leases[1] |
| HK(IFRIC)-Int 23 | Uncertainty over Income Tax Treatments[1] |
| Amendments to HKFRS 9 | Prepayment Features with Negative Compensation[1] |
| Amendments to HKAS 28 | Long-term Interests in Associates and Joint Ventures[1] |
| Amendments to HKAS 1 (Revised) and HKAS 8 | Definition of Material[2] |
| Amendments to HKFRS 3 | Definition of Business[2] |
| Annual Improvements to HKFRSs 2015-2017 Cycle | Amendments to HKFRS 3, Business Combinations[1] |
| Annual Improvements to HKFRSs 2015-2017 Cycle | Amendments to HKFRS 11, Joint Arrangements[1] |
| Annual Improvements to HKFRSs 2015-2017 Cycle | Amendments to HKAS 12, Income Taxes[1] |
| Annual Improvements to HKFRSs 2015-2017 Cycle | Amendments to HKAS 23, Borrowing Costs[1] |
| HKFRS 17 | Insurance Contracts[3] |
| Amendments to HKFRS 10 and HKAS 28 | Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[4] |

1 *Effective for annual periods beginning on or after 1 January 2019*

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

3 *Effective for annual periods beginning on or after 1 January 2021*

4 *The amendments were originally intended to be effective for periods beginning on or after 1 January 2017. The effective date has now been deferred/removed. Early application of the amendments continue to be permitted.*

## 2. REVENUE

Revenue, which is also the Group's turnover, represents the invoiced value of goods sold or services provided to customers after any allowance and discounts and is analysed as follows:

| | **2018** | 2017 |
|---|---|---|
| | ***RMB*** | *RMB* |
| Fertiliser products | **347,327,533** | 354,288,504 |
| Elderly care and health care services | **4,570,125** | 21,618,026 |
| Total revenue from contracts with customers | **351,897,658** | 375,906,530 |

The following table provides information about trade receivables and contract liabilities from contracts with customers.

| | **31 December 2018** | 1 January 2018 |
|---|---|---|
| | ***RMB*** | *RMB* |
| Trade receivables | **76,499,301** | 107,010,288 |
| Contract liabilities | **22,264,411** | 17,512,100 |

The contract liabilities mainly relate to the advance consideration received from customers. RMB14,924,876 of the balance at beginning of the year has been recognised as revenue for the year ended 31 December 2018 from performance obligation satisfied during the year when the goods were sold or the services were rendered during the year.

## 3. SEGMENT INFORMATION

Operating segments are identified in a manner consistent with the internal reporting, in accordance with the Group's internal organisation and reporting structure, provided to the chief operating decision-maker to make strategic decisions.

For the year ended 31 December 2018, the Group has two reportable and operating segments. These segments are managed separately as each business offers different products and requires different business strategies. The following summary describes the operations in each of the Group's reportable segments:

- Fertiliser products – Manufacture and sale of biological compound fertiliser products

- Elderly care & health care services – Provision of integrated elderly care and health care services

Revenue from contracts with customers within the scope of HKFRS 15:

| | **2018** | 2017 |
|---|---|---|
| | ***RMB*** | *RMB* |
| Sales from biological compound fertilisers | **347,327,533** | 354,288,504 |
| Income from provision of integrated elderly care and health care services | **4,570,125** | 21,618,026 |
| | **351,897,658** | 375,906,530 |

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

**(a) Business segments**

Central revenue and expenses are not allocated to the operating segments as they are not included in the measure of the segments' profit that is used by the chief operating decision-maker for assessment of segment performance.

Information regarding the Group's reportable segments as provided to the Group's most senior executive management for the purposes of resource allocation and assessment of segment performance is set out below.

**Year ended 31 December 2018**

| | **Fertiliser products** | **Elderly care & health care services** | **Total** |
|---|---|---|---|
| | ***RMB*** | ***RMB*** | ***RMB*** |
| Revenue from external customers | 347,327,533 | 4,570,125 | 351,897,658 |
| Inter-segment revenue | – | – | – |
| Reportable segment revenue | 347,327,533 | 4,570,125 | 351,897,658 |
| Reportable segment loss | (42,607,392) | (241,363,169) | (283,970,561) |
| Interest income | (18,173) | (15,634) | (33,807) |
| Interest expense | 2,762,567 | – | 2,762,567 |
| Depreciation and amortisation for the year | 7,171,019 | 16,777,766 | 23,948,785 |
| Impairment loss on trade and other receivables | 3,861,473 | 431 | 3,861,904 |
| Impairment loss on intangible assets | – | 227,361,866 | 227,361,866 |
| Inventories written off | 13,070,185 | – | 13,070,185 |
| Provision for obsolete stock, net | 2,151,559 | – | 2,151,559 |
| Reportable segment assets | 354,486,133 | 56,121,555 | 410,607,688 |
| Additions to non-current assets during the year | 11,002,850 | 305,702 | 11,308,552 |
| Reportable segment liabilities | 122,283,546 | 2,145,995 | 124,429,541 |

Year ended 31 December 2017

| | Fertiliser products *RMB* | Elderly care & health care services *RMB* | Total *RMB* |
|---|---|---|---|
| Revenue from external customers | 354,288,504 | 21,618,026 | 375,906,530 |
| Inter-segment revenue | – | – | – |
| Reportable segment revenue | 354,288,504 | 21,618,026 | 375,906,530 |
| Reportable segment (loss)/profit | (1,156,166) | 4,769,041 | 3,612,875 |
| Interest income | (80,571) | (3,016) | (83,587) |
| Interest expense | 2,455,037 | – | 2,455,037 |
| Depreciation and amortisation for the year | 7,518,003 | 12,948,074 | 20,466,077 |
| Impairment loss on trade and other receivables | 7,966,304 | 7,099 | 7,973,403 |
| Provision for obsolete stock, net | 368,558 | – | 368,558 |
| Reportable segment assets | 388,166,865 | 277,449,494 | 665,616,359 |
| Additions to non-current assets during the year | 28,723,285 | 288,433,141 | 317,156,426 |
| Reportable segment liabilities | 90,852,633 | 785,002 | 91,637,635 |

**(b) Reconciliation of reportable segment revenues, profit or loss, assets and liabilities**

| | **2018** ***RMB*** | 2017 *RMB* |
|---|---|---|
| **Revenue** | | |
| Total reportable segments' revenue | **351,897,658** | 375,906,530 |
| Elimination of inter-segment revenue | **–** | – |
| Consolidated revenue | **351,897,658** | 375,906,530 |

| | 2018<br>*RMB* | 2017<br>*RMB* |
|---|---|---|
| **(Loss)/Profit before income tax** | | |
| Total reportable segments' (loss)/profit | **(283,970,561)** | 3,612,875 |
| Elimination of inter-segment profit | **–** | – |
| Interest income | **8,690** | 38,282 |
| Other interest income | **1,404,420** | 1,168,878 |
| Depreciation and amortisation | **(101,838)** | (109,954) |
| Share of loss of associates | **(2,792,016)** | (5,303,132) |
| Gain on deemed disposal of an associate | **–** | 1,995,152 |
| Finance costs | **–** | (1,244,100) |
| Unallocated corporate expenses | **(15,027,942)** | (20,614,969) |
| Consolidated loss before income tax | **(300,479,247)** | (20,456,968) |
| **Assets** | | |
| Total reportable segments' assets | **410,607,688** | 665,616,359 |
| Interest in associates | **17,660,069** | 13,452,085 |
| Amounts due from associates | **12,683,044** | 11,883,044 |
| Unallocated corporate assets | **8,028,703** | 16,926,358 |
| Consolidated total assets | **448,979,504** | 707,877,846 |
| **Liabilities** | | |
| Total reportable segments' liabilities | **124,429,541** | 91,637,635 |
| Other financial liabilities | **1,633,200** | 26,633,200 |
| Unallocated corporate liabilities | **31,249,132** | 14,807,220 |
| Consolidated total liabilities | **157,311,873** | 133,078,055 |

**(c) Disaggregation of revenue from contracts with customers**

In the following table, revenue is disaggregated by primary geographical market, major products and service lines and timing of revenue recognition. The table also includes a reconciliation of the disaggregated revenue with the Group's reportable segment.

| | Disaggregation of revenue from contracts with customers | | | | | |
|---|---|---|---|---|---|---|
| | Fertiliser products | | Elderly care & health care services | | Total | |
| | **2018** | 2017 | **2018** | 2017 | **2018** | 2017 |
| | ***RMB*** | *RMB* | ***RMB*** | *RMB* | ***RMB*** | *RMB* |
| **Primary geographical markets** | | | | | | |
| PRC | **347,327,533** | 354,288,504 | **4,570,125** | 21,618,026 | **351,897,658** | 375,906,530 |
| **Major products/services** | | | | | | |
| Sales of biological compound fertiliser products | | | | | | |
| – Ordinary fertilisers | **327,104,212** | 346,755,503 | **–** | – | **327,104,212** | 346,755,503 |
| – Organic fertilisers | **20,223,321** | 7,533,001 | **–** | – | **20,223,321** | 7,533,001 |
| Provision of integrated elderly care & health care services | | | | | | |
| – Licensing income | **–** | – | **2,543,470** | 19,665,750 | **2,543,470** | 19,665,750 |
| – Processing income | **–** | – | **331,107** | 347,907 | **331,107** | 347,907 |
| – Consultation service income | **–** | – | **1,695,548** | 1,604,369 | **1,695,548** | 1,604,369 |
| | **347,327,533** | 354,288,504 | **4,570,125** | 21,618,026 | **351,897,658** | 375,906,530 |
| **Timing of revenue recognition** | | | | | | |
| At a point in time | **347,327,533** | 354,288,504 | **2,543,470** | 19,665,750 | **349,871,003** | 373,954,254 |
| Transferred over time | **–** | – | **2,026,655** | 1,952,276 | **2,026,655** | 1,952,276 |
| | **347,327,533** | 354,288,504 | **4,570,125** | 21,618,026 | **351,897,658** | 375,906,530 |

**(d) Geographical information and major customers**

The Group's revenue from external customers is mainly derived from its operations in the PRC, where most of its non-current assets are located. None of the customers have transactions with the Group which exceeded 10% of the Group's revenue for the years ended 31 December 2018 and 2017.

## 4. LOSS BEFORE INCOME TAX

Loss before income tax is arrived after charging/(crediting):

| | **2018** | 2017 |
|---|---|---|
| | ***RMB*** | *RMB* |
| **Finance costs** | | |
| Interest expense on bank borrowings | **2,762,567** | 2,455,037 |
| Interest expense on other financial liabilities | **–** | 1,244,100 |
| | **2,762,567** | 3,699,137 |
| Auditor's remuneration | **1,204,310** | 1,009,909 |
| Research and development expenses | **11,667,239** | 9,294,266 |
| Cost of inventories recognised as expense | **333,337,369** | 309,759,572 |
| Depreciation on property, plant and equipment | **7,038,965** | 7,439,934 |
| Amortisation of prepaid land lease payments | **273,525** | 194,565 |
| Amortisation of intangible asset *(note (i))* | **16,738,133** | 12,941,531 |
| Allowance for/(reversal of allowance for) impairment losses on (net): | | |
| – Trade receivables | **3,817,278** | 8,112,422 |
| – Other receivables | **44,626** | (11,830) |
| Operating lease rentals: | | |
| – land and buildings | **5,131,293** | 3,780,108 |
| Employee costs (including emoluments of directors and supervisors): | | |
| – Wages and salaries | **24,999,887** | 22,871,594 |
| – Retirement benefit scheme contributions | **3,667,652** | 3,358,278 |
| – Staff welfare and other benefits | **1,709,831** | 1,374,188 |
| | **30,377,370** | 27,604,060 |

*Note:*

(i) Amortisation of intangible asset is included in cost of sales.

## 5. INCOME TAX

(a) The amount of taxation in the consolidated statement of comprehensive income represents:

| | **2018** | 2017 |
|---|---|---|
| | ***RMB*** | *RMB* |
| Current tax | | |
| – tax for the year | **598,407** | 493,003 |
| – (over)/under provision in respect of prior years | **(439,721)** | 333,713 |
| | **158,686** | 826,716 |

The Group is subject to income tax on an entity basis on profit arising in or derived from the tax jurisdictions in which members of the Group are domiciled and operated. Pursuant to the income tax rules and regulations of the PRC, the provision for PRC income tax of the subsidiaries of the Group is calculated based on the statutory tax rate of 25% (2017: 25%), except for the following subsidiaries.

High and New-Tech enterprise certificate was issued on 9 November 2017 and lasted for 3 years, to Guangdong Fulilong Compound Fertilisers Co., Ltd., recognising the entity as a High and New-Tech enterprise according to the PRC tax regulations and hence entitled to a preferential tax rate of 15% (2017: 15%).

Pursuant to the rules and regulations of the Cayman Islands, the Group's subsidiaries incorporated in the Cayman Islands are not subject to any income tax. The Group's subsidiaries incorporated in Hong Kong are not liable for income tax as they did not have any assessable income arising in Hong Kong during the year ended 31 December 2018 (2017: nil).

The income tax expense for the year can be reconciled to the Group's loss before income tax as follows:

| | **2018** | 2017 |
|---|---|---|
| | ***RMB*** | *RMB* |
| Loss before income tax | **(300,479,247)** | (20,456,968) |
| Calculated at statutory rate of 25% (2017: 25%) | **(75,119,812)** | (5,114,243) |
| Tax effect of share of loss of associates | **698,004** | 1,325,784 |
| Tax effect of non-taxable items | **(537,604)** | (5,446,348) |
| Tax effect of expenses not deductible for taxation purposes | **40,876,219** | 6,476,504 |
| Tax effect of unused tax losses not recognised | **32,762,365** | 3,652,828 |
| Tax rate of differential and preferential tax treatment | **1,919,235** | (1,208,833) |
| (Over)/Under provision in prior years | **(439,721)** | 333,713 |
| Others | **–** | 807,311 |
| Income tax | **158,686** | 826,716 |

**(b) Deferred taxation**

At 31 December 2018, the Group has unused tax losses of RMB170.8 million (2017: RMB39.8 million) that are available for offsetting against future taxable profits of the companies in which the losses arose. The unused tax losses can be carried forward for 5 years, of which RMB2.8 million, RMB14.7 million, RMB22.3 million and RMB131.0 million will be expired in 2020, 2021, 2022 and 2023 respectively. No deferred tax asset has been recognised in respect of such losses due to the unpredictability of future profit streams.

**6. DIVIDEND**

No dividend has been paid nor declared by the Company during the year (2017: nil).

## 7. LOSS PER SHARE

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

| | **2018** | 2017 |
|---|---|---|
| | ***RMB*** | *RMB* |
| Loss for the purpose of basic loss per share | **(177,679,819)** | (13,752,052) |
| Weighted average number of ordinary shares for the purpose of basic loss per share | **1,855,146,575** | 1,674,452,055 |

The weighted average number of ordinary shares for the year ended 31 December 2018 for the purpose of basic loss per share has been adjusted for the issue of shares on 14 March 2018.

No diluted loss per share is presented as there was no potential ordinary shares in issue during the years ended 31 December 2018 and 2017.

## 8. INTANGIBLE ASSET

| | **2018** | 2017 |
|---|---|---|
| | ***RMB*** | *RMB* |
| Cost | | |
| At 1 January | **276,085,998** | – |
| Additions through acquisition of a subsidiary | **–** | 276,085,998 |
| At 31 December | **276,085,998** | 276,085,998 |
| Amortisation and impairment | | |
| At 1 January | **13,940,797** | – |
| Amortisation | **16,738,133** | 12,941,531 |
| Impairment | **227,361,866** | 999,266 |
| At 31 December | **258,040,796** | 13,940,797 |
| Carrying amount | **18,045,202** | 262,145,201 |

The intangible asset was purchased through the acquisition of Shu Ju Ku Greater China, Ltd ("SJKGC") on 17 March 2017 and was recognised at its fair value at the date of acquisition. It is considered by the management of the Group as having a useful life of 16 years. The intangible asset will be tested for impairment whenever there is an indication that it may be impaired.

The intangible asset relates to medical license for the EEG diagnosis detection and analysis technology for the diagnosis of various psychiatric or neurological diseases, and the areas covered by the license included the PRC, Hong Kong, Macau, Japan and Korea. The exclusive worldwide license is granted from an independent third party incorporated in Seychelles, and such license is owned by an independent third party incorporated in Cyprus in relation to quantitative EEG data collection, analysis and subsequently for establishing the associated medical data bank.

The elderly care and health care services segment includes two CGUs, which are the elderly care services CGU and health care services CGU. The intangible asset belongs to the health care services CGU. The Group performed its impairment assessment for intangible assets in the health care services CGU by estimating the recoverable amount of the health care services CGU and comparing its recoverable amount to its carrying amount as at the end of the reporting period. The recoverable amount of the CGU has been determined from value in use calculations based on cash flow projections from formally approved budgets covering a five-year period. Cash flows beyond the five-year period are extrapolated using an estimated weighted average growth rate of 3.56% for the licensing income, which does not exceed the long-term growth rate for the industry in the People's Republic of China.

Details of the variables and assumptions were as follows:

| | **2018** | 2017 |
|---|---|---|
| Discount rate | **23.58%** | 25.16% |
| Operating margin | **63.59%–78.21%** | 53.53% – 59.42% |
| Growth rate within the five-year period – processing income | **0%** | 7.76% – 208.82% |
| Growth rate within the five-year period – licensing income | **–87.34%–3.56%** | –4.60% – 118.78% |

The discount rate used is pre-tax and reflects specific risks relating to the relevant CGU. The operating margin and growth rate within the five-year period have been based on past experience.

The growth rate within five-year period – processing income represented the EEG diagnosis detection services provided by the self-operated inspection centre. As there is no existing expansion plan for the self-operated inspection centre and the management of the Group selected to focus on the business development of the EEG diagnosis detection services to licensing business, the processing income is budgeted to maintain at the same level for the future five years for prudence reasons.

The growth rate within five-year period – licensing income represented the EEG diagnosis detection services which are licensed to the third parties for business purpose. The licensing income comprises installation income and licensees' processing income. The installation income is forecasted based on the number of licensing contracts to be arranged and expected to become zero since the financial year of 2021 as the management of the Group expected that future advanced technology would compete with the EEG diagnosis detection technology, while the licensees' processing income is forecasted based on the expected number of EEG diagnosis detection services provided by the licensees.

The intangible asset is included in the health care services CGU and the net operating profit before tax generated from the intangible asset in the health care services CGU would be expected to reduce from 100% of the projected profits of the CGU at the first six years after the end of reporting period gradually to 50% of the projected profits of the CGU at the fifteenth year after the end of reporting period, which is the year of expiry of intellectual property rights, for reflecting the expected technological development and the EEG diagnosis technology would be less competitive in the future.

As at 31 December 2018, the recoverable amount of the intangible asset was RMB18,045,202 (2017: RMB262,145,201), determined based on the value-in-use of the health care services CGU.

## 9. TRADE AND BILLS RECEIVABLES

| | **2018** | 2017 |
|---|---|---|
| | ***RMB*** | *RMB* |
| Trade receivables | **117,503,355** | 123,022,141 |
| Allowance for expected credit losses under HKFRS 9/ Impairment under HKAS 39 | **(41,004,054)** | (16,011,853) |
| | **76,499,301** | 107,010,288 |
| Bills receivable | **200,000** | 480,000 |
| | **76,699,301** | 107,490,288 |

An aging analysis of the trade receivables as at the end of the reporting periods, based on the invoice date and net of loss allowance, is as follows:

| | **2018** | 2017 |
|---|---|---|
| | ***RMB*** | *RMB* |
| Within 3 months | **41,487,500** | 55,946,439 |
| More than 3 to 6 months | **22,030,651** | 23,931,145 |
| More than 6 to 12 months | **5,385,592** | 19,333,254 |
| Over 1 year | **7,595,558** | 7,799,450 |
| | **76,499,301** | 107,010,288 |

As at 31 December 2017, trade receivables individually determined to be impaired amounted to RMB16,011,853. The individually impaired trade receivables relate to customers that were in default in principal payments and only a portion of the receivables is expected to be recovered. The Group does not hold any collateral or other credit enhancements over these balances. Movements in the allowance for impairment losses are as follows:

| | **2018** | 2017 |
|---|---|---|
| | ***RMB*** | *RMB* |
| At the beginning of the year | **16,011,853** | 7,899,431 |
| Effect of adoption of HKFRS 9 | **21,174,923** | – |
| Impairment losses recognised | **–** | 8,112,422 |
| Expected credit losses provided | **3,817,278** | – |
| At the end of the year | **41,004,054** | 16,011,853 |

**Disclosure under HKFRS 9**

The Group applies the simplified approach to providing for expected credit losses prescribed by HKFRS 9, which permits the use of the lifetime expected loss provision for all trade receivables.

An impairment analysis was performed at 31 December 2018 using a provision matrix to measure expected credit losses. The provision rates are based on invoice date for groupings of various customer segments with similar loss patterns. The calculation reflects the time value of money and reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions.

Set out below is the information about the credit risk exposure on the Group's trade receivables using a provision matrix based on the aging analysis by invoice date:

| | **Within 3 months** | **More than 3 to 6 months** | **More than 6 to 12 months** | **Over 1 year** | **Total** |
|---|---|---|---|---|---|
| | *RMB* | *RMB* | *RMB* | *RMB* | *RMB* |
| Expected loss rate | 8.65% | 14.62% | 38.50% | 79.76% | |
| Gross carrying amount | 45,416,048 | 25,802,270 | 8,757,720 | 37,527,317 | 117,503,355 |
| Expected credit losses | 3,928,548 | 3,771,619 | 3,372,128 | 29,931,759 | 41,004,054 |

**Disclosure under HKAS 39**

The aging analysis of trade receivables that were neither individually nor collectively considered impaired under HKAS 39:

| | 2017 |
|---|---|
| | *RMB* |
| Trade receivables | |
| Neither past due nor impaired | 64,845,245 |
| Past due but not impaired | |
| Within 3 months | 20,095,995 |
| More than 3 to 6 months | 10,359,558 |
| More than 6 to 12 months | 8,212,206 |
| More than 1 year | 3,497,284 |
| | 107,010,288 |

In prior years, under HKAS 39, the Group recognised impairment loss based on the application of the following criteria established by management of the Group, which take into account both the aging and repayment pattern of trade receivables balances for each customer, as below:

(i) The trade receivable balance is aged for more than 1 year;

(ii) Settlements are infrequent and insignificant compared to the outstanding balance for the recent 3 years and no settlements are noted subsequent to the date of the reporting period; and

(iii) No future settlement plan has been agreed or legal action has been taken to the customer.

The Group does not hold any collateral over these balances.

Receivables that were past due but not impaired related to a number of independent customers that had good track records with the Group. Based on past experience, the management of the Group was of the opinion that no provision for impairment under HKAS 39 were necessary in respect of these balances as there has not been a significant change in credit quality and the balances were still considered fully recoverable.

Receivables that were neither past due nor impaired related to a large number of diversified customers for whom there was no recent history of default.

## 10. PREPAYMENTS AND OTHER RECEIVABLES

| | 2018 | 2017 |
|---|---|---|
| | *RMB* | *RMB* |
| **Current** | | |
| Prepayments | | |
| Advanced deposits to suppliers | **64,102,603** | 66,887,599 |
| Other prepayments | **273,525** | 194,565 |
| | **64,376,128** | 67,082,164 |
| Other receivables | **4,647,934** | 4,494,019 |
| *Less:* allowance for doubtful debts *(note (ii))* | **(2,278,779)** | (2,234,153) |
| | **2,369,155** | 2,259,866 |
| | **66,745,283** | 69,342,030 |
| **Non-current** | | |
| Prepayments and other receivables *(note (i))* | **12,401,826** | 12,274,365 |
| | **79,147,109** | 81,616,395 |

*Notes:*

(i) In October 2013, the Group started legal proceeding against a lessor and its associates for failure to assist the Group in applying for relevant certificate for a deposit of acquiring prepaid land lease. On 12 September 2017, the Group and the owner of the land lease signed a Cooperative Land Use Right Transfer Agreement in which the owner of the land lease agreed to transfer the land use right at a consideration of RMB10.8 million, before including the direct costs, with a lease period of 50 years. As at 31 December 2018, deposits and relevant prepayments including direct costs required for the acquisition of the land use right is recorded in the balance sheet. As at the year end date, the arrangement of transfer of the land use right certificate is in progress. The actual cost incurred for the acquisition of land use right, including the direct costs, would be confirmed once the land use right transfer is agreed.

(ii) Allowance for doubtful debts:

| | **2018** | 2017 |
|---|---|---|
| | ***RMB*** | *RMB* |
| At 1 January | **2,234,153** | 2,245,983 |
| Allowance for impairment loss | **44,626** | – |
| Reversal of bad debt | **–** | (11,830) |
| At 31 December | **2,278,779** | 2,234,153 |

The Group determined that these other receivables have low credit risk at reporting date and no significant increase in credit risk since initial recognition, the ECL is recognised at lifetime basis. As such, other receivables are assessed for impairment individually at each reporting date and impairment losses of the Group amounting to approximately RMB2.3 million (2017: RMB2.2 million) has been made as at 31 December 2018. The individually impaired receivables are recognised based on the indication of financial difficulties and default in payments. Consequently, specific impairment provision was recognised. Prepayments and other receivables are non-interest bearing and the Group does not hold any collateral over these balances.

## 11. TRADE PAYABLES

| | **2018** | 2017 |
|---|---|---|
| | ***RMB*** | *RMB* |
| Trade payables | **40,175,528** | 22,123,954 |

Generally, the credit terms received from suppliers of the Group is 90 days. An aging analysis of year end trade payables is as follows:

| | **2018** | 2017 |
|---|---|---|
| | ***RMB*** | *RMB* |
| Within 3 months | **30,210,855** | 14,244,564 |
| More than 3 to 6 months | **3,611,449** | 2,431,613 |
| More than 6 to 12 months | **2,164,397** | 1,812,551 |
| Over 1 year | **4,188,827** | 3,635,226 |
| | **40,175,528** | 22,123,954 |

## 12. BANK BORROWINGS

| | **2018** | 2017 |
|---|---|---|
| | ***RMB*** | *RMB* |
| Secured | **49,500,000** | 35,000,000 |
| Unsecured | **–** | 5,000,000 |
| | **49,500,000** | 40,000,000 |

Bank borrowings are repayable within one year.

*Notes:*

(i) In 2018, bank borrowings secured against property, plant and equipment with a total carrying amount of approximately RMB74.7 million (2017: RMB72.8 million). Certain bank borrowings were also guaranteed by a director of the subsidiary and an independent third party.

(ii) The bank borrowings of the Group bear interest at fixed and floating interest rates. The effective interest rates ranged from 4.35% to 6.50% (2017: 4.52% to 7.40%).

(iii) As at 31 December 2018, banking facilities of approximately RMB62.9 million (2017: RMB50.4 million) were granted to the Group and the Group utilised approximately RMB49.5 million (2017: RMB40.0 million) during the year ended 31 December 2018.

## 13. SHARE CAPITAL

**(a)** The Company's issued and fully paid-up capital comprises:

| | **2018** | | 2017 | |
|---|---|---|---|---|
| | ***Number (million)*** | ***RMB*** | *Number (million)* | *RMB* |
| Ordinary shares of RMB0.10 each: | | | | |
| **Domestic shares** | | | | |
| At 1 January and 31 December | **698** | **69,750,000** | 698 | 69,750,000 |
| **H shares** | | | | |
| At 1 January | **997** | **99,750,000** | 897 | 89,750,000 |
| Issue of new shares *(note (i))* | **200** | **19,950,000** | 100 | 10,000,000 |
| At 31 December | **1,197** | **119,700,000** | 997 | 99,750,000 |
| Total at 31 December | **1,895** | **189,450,000** | 1,695 | 169,500,000 |

*Notes:*

(i) On 14 March 2018, the Company issued additional 199,500,000 H Shares to six independent third parties in an aggregate consideration of RMB39,801,224, after deducting relevant expenses incurred in relation to the issuance.

(ii) Domestic shares and H shares are both ordinary shares in the share capital of the Company. However, H shares may only be subscribed for by, and traded in Hong Kong dollars between legal or natural persons of Hong Kong, Macau, Taiwan or any country other than the PRC. Domestic shares on the other hand, may only be subscribed for by, and traded between legal or natural persons of the PRC (other than Hong Kong, Macau and Taiwan) and must be subscribed for and traded in RMB. All dividends in respect of H shares are to be paid by the Company in Hong Kong dollars whereas all dividends in respect of domestic shares are to be paid by the Company in RMB. Other than the above, all domestic shares and H shares rank pari passu with each other in all respects and rank equally for all dividends or distributions declared, paid or made.

**(b)** Movements in the Group's reserves are set out in the consolidated statement of changes in equity.

**(c)** No share options had been granted by the Company under its share option scheme (the "Scheme") since its adoption. At 31 December 2018, none of the directors or supervisors, employees or other participants of the Scheme had any rights to acquire the H Shares in the Company (2017: nil).

## 14. RESERVES

| | Share premium RMB (Note(i)) | Capital reserve RMB (Note(iii)) | Accumulated losses RMB (Note(iv)) | Other reserve RMB (Note(v)) | Total RMB |
|---|---|---|---|---|---|
| **The Company** | | | | | |
| At 1 January 2017 | 154,667,871 | (2,312,483) | (84,100,020) | (22,032,403) | 46,222,965 |
| Issue of new shares | 100,798,343 | – | – | – | 100,798,343 |
| Loss and total comprehensive income for the year | – | – | (20,878,915) | – | (20,878,915) |
| At 31 December 2017 | 255,466,214 | (2,312,483) | (104,978,935) | (22,032,403) | 126,142,393 |
| Issue of new shares | 19,851,224 | – | – | – | 19,851,224 |
| Loss and total comprehensive income for the year | – | – | (85,425,893) | – | (85,425,893) |
| At 31 December 2018 | 275,317,438 | (2,312,483) | (190,404,828) | (22,032,403) | 60,567,724 |

### (i) Share premium

Share premium represents premium arising from the issue of shares issued at a price in excess of their par value per share.

### (ii) Surplus reserve

In accordance with the PRC Companies Law, the Company and its subsidiaries are required to transfer 10% of their profit after tax, as determined in accordance with accounting standards and regulations of the PRC, to the statutory surplus reserve (until such reserve reaches 50% of the registered capital of the respective companies). The statutory surplus reserve is non-distributable and can be used to make up losses or to increase share capital. Except for the reduction of losses incurred, other usage should not result in the statutory surplus reserve falling below 25% of the registered capital. No such transfer was made in 2018 and 2017 as such reserve reached 50% of the registered capital of the respective companies.

No surplus reserve was set up for the Company for the year ended 31 December 2018.

### (iii) Capital reserve

The capital reserve arose primarily as a result of the group reorganisation in 2002.

### (iv) Accumulated losses

Accumulated losses represent the cumulative net gains and losses recognised in profit or loss.

### (v) Other reserve

The reserve relates to the initial carrying amount of liability of a written put option granted to non-controlling interests which were independent third parties under a disposal transaction of partial interest in a subsidiary. The reserve will be released upon the expiry of the put option.

# MANAGEMENT DISCUSSION AND ANALYSIS

## BUSINESS REVIEW

During the year under review, the market performance of our compound fertiliser business was very tortuous. A large number of compound fertiliser enterprises had recorded poor performances, which were caused by the substantial fluctuations in raw material prices as well as adverse weather conditions, in particular, the direct landfall of the second strongest typhoon in history in Pearl River Delta had caused severe flooding and disaster in Guangdong, and Guangdong Fulilong also suffered heavy cargo losses. Furthermore, during the year under review, the purchasing power from most of farmers was dropping sharply. In addition to the price decline in agricultural products, the shrinkage of plantation area was also facing challenge. At present, the layout of a scalable but not strong China fertiliser industry is still not completely turnaround and a wide gap still exists when comparing with developed countries. For organic fertilisers, currently China's microbial fertilisers only accounts for about 7% of chemical fertilisers consumption, while it is nearly 50% when comparing with United States and other western countries. At present, China has introduced various preferential and encouragement policies, and started to endeavour vigorously in developing organic fertilisers and green agriculture, and advocate organic food and green consumption. In recent years, Guangdong Fulilong, a subsidiary of the Company, took precautionary measures to increase its investments in research and development, and conducted strategic cooperation with domestic authoritative technology research institutes, such as The Chinese Academy of Agricultural Sciences, China Agricultural University, South China Agricultural University and South China University of Technology to continuously develop new fertiliser products that meet the needs of green agriculture. During the period under review, new products including Zhilong (智龍) third-generation active fertiliser, active chitosan water-soluble fertiliser, Youbu (尤補) compound microbial fertiliser and Youjun (尤菌) bacteria microbial agents were developed, especially the microbial agents that have multiple functions of supplementing calcium, preventing nematodes, blocking heavy metals, enhancing stress resistance, and improving crops quality, which are genuine ecological fertiliser products that provides "correct and healthy nutrition for crops". The microbial agent was overwhelmingly accepted by farmers due to its excellent trial performance and received wide market acclaim. Guangdong Fuliong has invested in technological innovation activities for a long time with a technology-based development philosophy, which has also been highly appreciated by industry experts. In January 2018, Tang Huajun, the president of the Chinese Academy of Agricultural Sciences, set up his academician workshop in Guangdong Fulilong to provide technical support regarding the development of Guangdong Fulilong's new fertiliser products.

During the year under review, the health care and elderly care services and EEG detection services business of the Group are grouped under the grand health industry. According to the latest data survey, at this stage, China's grand health industry mainly focuses on pharmaceutical industry and elderly care industry, with market share reaching 50.05% and 33.04% respectively. The proportion of the health management service industry is the smallest, only 2.71%. In general, under the grand health strategy, the health management service industry will be the most important incremental market. In the health management service industry, the EEG detection service business of the Company can widely apply to a wide range of age groups (including adolescents, youth and elderly), including prone to mental illness detection, potential strength and personality detection, and neurodevelopmental maturity testing etc. During the year under review, Huaben Dongcheng Elderly Daytime Care Centre（花本東城老年人日間照護中心）in Pudong New Area, Shanghai was formally operated. It is managed by Shanghai Ruifu Elderly Service Centre（上海瑞福養老服務中心）under the elderly care management and consultation service provided by Shanghai Muling. Among the 2018 Shanghai welfare tender projects, a total of 8 projects were being awarded. The projects will provide group rehabilitation and group therapy services to 1,000 elderly in the community. On 12 November 2018, Shanghai Muling signed a cooperative agreement with Beijing Real Estate Yijia Elderly Care Services Co., Ltd.（北京房地頤家養老服務有限公司）("Real Estate Yijia") for which Shanghai Muling shall provide elderly care business management and consulting services to the nursing home of Real Estate Yijia in Guanzhuang, Chaoyang District, Beijing. It is the first nursing home for Shanghai Muling to provide management and consulting services in Beijing. On 21 December 2018, the Company, Shuifa Zhongxing Group Co., Ltd.（水發眾興集團有限公司）("Shuifa Zhongxing") and Shandong Runzhao Environmental Technology Co., Ltd.（山東潤昭環境科技有限公司）("Runzhao Environmental") set up a joint venture, Shandong Shuifa Ruifu Elderly Care Services Co., Ltd. ("Shuifa Ruifu"), which is endeavoured to develop the investment, design, management and operation of elderly care institutions, consulting and training of elderly care business and other services in Shandong, and vigorously promotes the "Shuifa Ruifu Elderly Care" brand. Considering the legitimate, efficient and sustainable promotion of the EEG detection business, the Company will engage in an active negotiation with the vendor, who is required to establish an artificial intelligence cloud terminal for EEG detection step by step in China. At present, SJK has completed the connection between the EEG data management system and the multiple standalone versions of EEG detection in China, and will gradually achieve the domestic EEG dada transmission for artificial intelligence cloud terminal. SJKGC's business training, staff recruitment and market expansion were greatly behind the schedule, resulting from EEG data collected by SJKGC were not able to interpret successfully and promptly to produce a detection report, and the artificial intelligence standalone version successfully developed was not able to support the simultaneous publishing of massive EEG reports during the technical development period. In addition, the development of the EEG detection business was lagged behind than expected due to the fact that the trade war between China and USA continued to ferment in 2018, which was considered to be an unpredictable significant risk, hence, the Company determined that SJKGC's development strategy is not to take massive market expansion as the Company's operating goal, but to urge the vendor to achieve mature EEG data processing system in China as the prerequisite for the massive business expansion.

## FINANCIAL REVIEW

### Turnover, gross profit and gross margin

For the year ended 31 December 2018, the Group achieved total annual turnover of RMB351,897,658, representing a decrease of 6.39% as compared to last year (31 December 2017: RMB375,906,530). The consolidated gross profit was RMB1,706,855 (31 December 2017: RMB53,205,427) and consolidated gross profit margin was 0.49% (31 December 2017: 14.15%). The decrease in total annual turnover and consolidated gross profit margin was mainly driven by the combination effect of the establishment of rebate policy in Guangdong Fulilong which net-off the sales of RMB8,774,694 and the decrease in licensing income generated from EEG diagnosis detection services from installing the software during the year.

### Impairment loss of intangible assets

During the year ended 31 December 2018, an impairment loss of intangible assets of RMB227,361,866 was recognised. The directors of the Company considered that the reasons of impairment were the change of market condition in the PRC and the change of business development strategy.

The intangible asset belongs to the health care services cash-generating unit ("CGU"). The Group performed its impairment assessment for intangible assets in the health care services CGU by estimating the recoverable amount of the health care services CGU and comparing its recoverable amount to its carrying amount as at the end of the reporting period. The recoverable amount of the CGU has been determined from value in use calculations based on cash flow projections from formally approved budgets covering a five-year period. Cash flows beyond the five-year period are extrapolated using an estimated weighted average growth rate of 3.56% for the licensing income, which does not exceed the long-term growth rate for the industry in the People's Republic of China.

The income generated from the intangible asset mainly from two aspects: processing income and licensing income.

As there is no existing expansion plan for the self-operated inspection centre and the management of the Group selected to focus on the business development of the EEG diagnosis detection services to licensing business, the processing income is budgeted to maintain at the same level for the future five years.

The licensing income comprises installation income and licensees' processing income. The installation income is forecasted based on the number of licensing contracts to be arranged and expected to be zero since the financial year of 2021 as the management of the Group expected that future advanced technology would compete with the EEG diagnosis detection technology, while the licensees' processing income is forecasted based on the expected number of EEG diagnosis detection services provided by the licensees.

The intangible asset is included in the health care services CGU and the net operating profit before tax generated from the intangible asset in the health care services CGU would be expected to reduce from 100% of the projected profits of the CGU at the first six years after the end of reporting period gradually to 50% of the projected profits of the CGU at the fifteenth year after the end of reporting period, which is the year of expiry of intellectual property rights, for reflecting the expected technological development and the EEG diagnosis technology would be less competitive in the future.

Details of the variables and assumptions were disclosed in Note 8 of this announcement.

As at 31 December 2018, the recoverable amount of the intangible asset was RMB18,045,202 (2017: RMB262,145,201), determined based on the value in use of the health care services CGU. The significant decrease in recoverable amount of the intangible asset is due to the EEG diagnosis detection market is not developed as expected in prior year.

**Other income and losses, net**

For the year ended 31 December 2018, other income and losses, net was RMB3,680,687 (31 December 2017: RMB5,377,946). Other income and losses, net for the year ended 31 December 2018 mainly comprised inventories written off of RMB13,070,185 due to the extraordinary impact from the direct hit of Super Typhoon Mangkhut to Guangdong Province in September 2018, exceeded the foreign exchange gain of RMB3,701,525 from conversion of subscription proceeds from Hong Kong dollar to Renminbi, the fair value gain of profit guarantee receivable of RMB2,200,055 from the EEG diagnosis detection intangible assets, other interest income from an associate of RMB1,404,420 and government grant income of RMB1,039,281.

**Selling and distribution costs**

For the year ended 31 December 2018, selling and distribution costs of the Group was RMB21,726,586 (31 December 2017: RMB14,755,804), representing an increase of 47.24% as compared to last year. The increase was due to the extensive promotion activities for the sales team to maintain the turnover level during the year.

**Administrative expenses**

For the year ended 31 December 2018, administrative expenses of the Group were RMB32,195,141 (31 December 2017: RMB36,227,996), representing a decrease of 11.13% as compared to last year.

**Research and development expenses**

For the year ended 31 December 2018, research and development expenses of the Group were RMB11,667,239, representing an increase of 25.53% as compared to last year (31 December 2017: RMB9,294,266). The increase was due to the continuous effort of Guangdong Fulilong to perform researches and scientific projects for enhancing the quality of biological compound fertilisers and launching new biological compound fertilisers to the public.

**Finance costs**

For the year ended 31 December 2018, finance costs of the Group were RMB2,762,567, representing a decrease of 25.32% as compared to last year (31 December 2017: RMB3,699,137). The decrease in finance costs was contributed by no further interest expense for the other financial liabilities was charged during the year ended 31 December 2018 as the other financial liability has been considered to be offset from a consideration paid by a third party of RMB24,500,000 and the Company of RMB500,000 during the year, respectively.

**Loss for the year**

For the year ended 31 December 2018, loss attributable to the owners of the Company was RMB177,679,819 (2017: RMB13,752,052). For the year ended 31 December 2018, loss per share of the Company was RMB9.58 cents (2017: RMB0.82 cents).

## STRUCTURE OF SHARE CAPITAL

As at 31 December 2018, the structure of share capital of the Company is set out in the section of "SUBSCRIPTION OF NEW H SHARES UNDER GENERAL MANDATE" below.

## SUBSCRIPTION OF NEW H SHARES UNDER GENERAL MANDATE

On 9 February 2018, the Company and six subscribers entered into subscription agreements, pursuant to which the subscribers agreed to subscribe for, and the Company agreed to issue to the subscribers, an aggregate of 199,500,000 new H Shares at the subscription price of HK$0.25 each. The subscribers are independent institutional and/or individual investors who are independent of the Company and its connected persons under the GEM Listing Rules. The number of the subscription shares represented approximately 10.53% of the total number of shares of the Company in issue after the completion of the subscriptions on 14 March 2018. The net proceeds from the subscription, net of relevant expenses incurred from the subscription, amounted to RMB39,801,224. For details, please refer to the announcements of the Company published on the GEM website dated 9 February 2018, 12 February 2018 and 14 March 2018 respectively.

The comparison of the shareholding structure of the Company immediately before and after the issue of additional H shares is as follows:

| Name of shareholders | Before Completion of This Additional Issue | | After Completion of This Additional Issue | |
|---|---|---|---|---|
| | Number of Shares Held | Percentage of Shares *(%)* | Number of Shares Held | Percentage of Shares *(%)* |
| Tianjin TEDA International Incubator (“Incubator”) | 182,500,000 | 10.77 | 182,500,000 | 9.63 |
| Shenzhen Xiangyong Investment Company Limited (“Xiangyong Investment”) | 180,000,000 | 10.62 | 180,000,000 | 9.50 |
| Shandong Zhinong Fertilisers Company Limited (“Zhinong Fertilisers”) | 180,000,000 | 10.62 | 180,000,000 | 9.50 |
| Dongguan Lvye Fertilisers Company Limited (“Lvye Fertilisers”) | 120,000,000 | 7.08 | 120,000,000 | 6.33 |
| Others | 35,000,000 | 2.06 | 35,000,000 | 1.85 |
| H Shares public shareholders | 897,500,000 | 52.95 | 897,500,000 | 47.38 |
| H Shares subscribers | – | – | 199,500,000 | 10.53 |
| Shu Ju Ku, Inc | 100,000,000 | 5.90 | 100,000,000 | 5.28 |
| Total | 1,695,000,000 | 100.00 | 1,894,500,000 | 100.00 |

## USE OF PROCEEDS FROM ISSUANCE OF NEW H SHARES

On 14 March 2018, the Company issued an announcement in relation to the completion of subscribing new shares under general mandate, pursuant to which, the conditions set out in the subscription agreement had been fulfilled, and the subscription was completed on 14 March 2018. According to the subscription agreement, the Company had allocated and issued a total of 199,500,000 subscription shares at a subscription price of HK$0.25 per subscription share to the subscribers. The net proceeds from the subscription, net of relevant expenses incurred from the subscription, amounted to RMB39,801,224. The Company proposed to utilise such fund to further develop its overall planning of the business fields including but not limited to elderly care services and the operation and management business integrating medical and care services, such as the improvement of the custodial services, facilities and information management of the elderly care institutions, etc. its comprehensive layout, including but not limited to, business sector integrating medical and caring services in elderly care services and operating management business, such as improving the trust services, facilities and information management of the nursing homes.

As of 31 December 2018, the Group had utilised the net proceeds from issuance of new H shares in the following manners:

| Unit: HK$ | Use of proceeds | Actual amount used as of 31 December 2018 |
|---|---|---|
| About 70% were used to carry out the nationwide operation management of elderly care institutions (service facilities), integration of elderly care service resources, supervision and consultancy on elderly care service management and other related old-aged service businesses were gradually conducted. The above services included the fund required for further investing in transforming the trusteeship of elderly care service institutions; establishing operation management platform system of elderly care service institutions chain, and upgrading elderly care management institutions. | 34,457,500 | 14,409,945 |
| About 30% were used to purchase EEG detection equipment for the nursing homes currently operated and managed by the Company, day care centres and related partners, and provide operating capitals that are needed to carry out the EEG detection services in elderly care institutions. | 14,767,500 | 2,940,366 |
| Total | 49,225,000 | 17,350,311 |

## SUPPLEMENTAL ANNOUNCEMENT IN RELATION TO THE ANNUAL REPORT FOR THE YEAR ENDED 31 DECEMBER 2017

The Company issued a supplemental announcement on 26 April 2018 to provide the following additional information in respect of its acquisition (the "Acquisition") of 51% stake of SJK Greater China Ltd. ("SJKGC"):

As disclosed in the circular of the Company dated 25 July 2016 in relation to the Acquisition, profit guarantees were provided to the Company by Shu Ju Ku Inc. ("SJK"), the vendor, that the audited profit after tax of SJKGC in each of the three financial years of 2017, 2018 and 2019 (from 1 January to 31 December of each year) would not be less than US$5,390,000, pursuant to the agreement (the "Agreement") dated 16 April 2016 (as amended and supplemented by the supplemental agreement dated 25 April 2016) entered into among the Company, SJK and SJKGC.

In view that the audited net profit after tax of SJKGC for the year ended 31 December 2017 was approximately US$2,922,000, the above profit guarantee for the year ended 31 December 2017 had not been fulfilled. In order to comply with the terms of the Agreement, the Company and SJK entered into a memorandum on 16 January 2018, pursuant to which SJK confirmed that the Company will have the right of priority and entitlement of cash dividend in the amount of US$2,750,000 for the year ended 31 December 2017 and that the said dividend will be settled to the Company by 30 November 2018.

The vendor has agreed that the dividend distribution would be made by SJKGC based on the audited net profit in 2017 through singing the shareholder's resolution on 26 April 2018, at the same time, the purchaser confirmed the vendor has fulfilled the profit guarantee commitment in 2017.

For details, please refer to the supplemental announcement of the Company published on the GEM website dated 26 April 2018.

## GENERAL MANDATE TO ISSUE SHARES

On 17 May 2018, the Company issued an announcement of results of annual general meeting, according to which a special resolution was duly passed at the annual general meeting of the Company on 17 May 2018 granting to the Board a general mandate to issue, allot and deal with additional domestic shares/ H shares not exceeding 20% of the domestic shares in issue and 20% of the H shares in issue of the Company, and authorising the Board to make such amendments to the articles of association of the Company as it thinks fit to reflect the new share capital structure subsequent to the allotment or issue of additional shares. For details, please refer to the notice of the annual general meeting and circular of the Company both dated 29 March 2018 published on the GEM website, and the announcement of results of the annual general meeting dated 17 May 2018 published on the GEM website.

## RESIGNATION AND APPOINTMENT OF DIRECTORS

The Company issued announcements on 10 August 2018 and 21 September 2018 respectively that the Board had accepted the resignation of Mr. Feng Enqing, a non-executive Director, and the resignation of Mr. Liu Renmu, an executive Director, with effect from 9 August 2018 and 20 September 2018 respectively.

The Board proposed to appoint Ms. Gai Li as a non-executive Director and appoint Mr. He Xin as an executive Director respectively for a term commencing on the date of approval by the shareholders of the Company and expiring on 31 December 2019. The aforesaid proposals became effective after being voted by poll as ordinary resolutions at the extraordinary general meetings of the Company convened on 26 September 2018 and 20 December 2018 respectively. For details, please refer to the announcements dated 10 August 2018 and 21 September 2018 respectively published on the GEM website, the notice of extraordinary general meeting and circular both dated 10 August 2018 and 27 September 2018 of the Company respectively, and the announcements of the results of the extraordinary general meetings dated 26 September 2018 and 20 December 2018 of the Company published on the GEM website respectively.

## CHANGE OF CHIEF EXECUTIVE OFFICER

On 1 February 2019, the Company issued an announcement that Ms. Sun Li ("Ms. Sun") resigned as the chief executive officer ("CEO") of the Company with effect from 1 February 2019, in order to dedicate more efforts and spend more time in deciding and dealing with the Company's corporate policies and major matters. Ms. Sun will remain as the Chairman of the Board, executive director, chairman of the nomination committee and member of the remuneration committee of the Company. At the same time, the Board announced to appoint Mr. Yang Junmin to replace Ms. Sun as the CEO of the Company with effect from 1 February 2019. For details, please refer to the announcement the Company dated 1 February 2019 published on the GEM website.

## SEGMENTAL INFORMATION

The Group principally operates two business segments: (1) biological compound fertilisers products; and (2) elderly care and health care services.

The details of the analysis of the Group's segment results for the year ended 31 December 2018 and 31 December 2017 are disclosed in note 3 of this announcement.

## LIQUIDITY, FINANCIAL RESOURCES AND GEARING RATIO

During the year ended 31 December 2018, the Group financed its operations mainly by internally generated cash and banking facilities.

As at 31 December 2018, the Group's current assets and net current assets were RMB293,901,494 (31 December 2017: RMB307,618,425) and RMB136,589,621 (31 December 2017: RMB174,540,370) respectively. The liquidity ratio of the Group, represented by the ratio of current assets over current liabilities, was 1.87 (31 December 2017: 2.31). The Group's current assets as at 31 December 2018 comprised mainly cash and bank balances of RMB43,129,493 (31 December 2017: RMB37,592,277), trade and bills receivables of RMB76,699,301 (31 December 2017: RMB107,490,288), prepayments and other receivables of RMB66,745,283 (31 December 2017: RMB69,342,030) and inventories of RMB85,618,751 (31 December 2017: RMB92,699,923).

As at 31 December 2018, total bank borrowings of the Group amounted to RMB49,500,000 (31 December 2017: RMB40,000,000). The bank borrowings are denominated in Renminbi and provided by various licensed banks in China with fixed and floating interest rates ranging from 4.35% to 6.50% (31 December 2017: 4.52% to 7.40%) per annum. Out of all the bank borrowings, a total amount of RMB38,200,000 will mature in the first half of 2019, a total amount of RMB11,300,000 will mature in the second half of 2019.

As at 31 December 2018, the Group's consolidated total assets and net assets were RMB448,979,504 (31 December 2017: RMB707,877,846) and RMB291,667,631 (31 December 2017: RMB574,799,791) respectively. The Group's consolidated gearing ratio, represented by the ratio of total liabilities to total assets, was 0.35 (31 December 2017: 0.19). As at 31 December 2018, the Group's consolidated gearing ratio, represented by the ratio of total bank borrowings to total assets, was 0.11 (31 December 2017: 0.06).

## CHARGES ON THE GROUP'S ASSETS AND CONTINGENT LIABILITIES

As at 31 December 2018, banking facilities of approximately RMB62,900,000 (2017: RMB50,000,000) were granted to the Group and the Group utilised approximately RMB49,500,000 (2017: RMB40,000,000) during the year ended 31 December 2018.

As at 31 December 2018, the Group did not have any material contingent liabilities (2017: RMB Nil).

## EMPLOYEE AND REMUNERATION POLICIES

As at 31 December 2018, the Group had 531 employees (2017: 643 employees). The remunerations of the Group's employees are determined in accordance with the terms of government policies and by reference to market standard and the performance, qualifications and experience of employees. Discretionary bonuses are paid to a few employees as a recognition of and reward for their contributions to the corporate development. Other benefits include contributions to retirement schemes, medical schemes, unemployment insurance schemes and housing allowances.

## EXPOSURE TO FOREIGN CURRENCY RISK

During the period under review, the Group had a relatively low foreign currency risk since all the principal business of the Group are mainly domestic sales in China denominated in Renminbi and payables to suppliers are also mainly denominated in Renminbi.

The Group mainly operated in PRC with most of the transactions settled in RMB and did not have significant exposure to risk resulting from changes in foreign currency exchange rates.

Exchange difference for the year ended 31 December 2018 mainly represented the exchange gain on the share subscription. On 14 March 2018, the Company issued additional 199,500,000 H Shares to six independent third parties in an aggregate consideration of RMB39,801,224, after deducting relevant expenses incurred in relation to the issuance. In October 2018, the Company performed currency conversion from HKD to RMB and remitted the considerations to the PRC. The exchange gain was due to depreciation in RMB against HKD between the periods.

## TREASURY POLICIES

The Group's bank borrowings are denominated in Renminbi and are usually renewed for one year upon maturity. Any surplus cash will be placed as deposits with licensed banks in China.

## FUTURE OUTLOOK

At present, the international economic landscape and global governance system are undergoing thorough profound adjustments and changes with interwoven rivalries in politics, diplomacy, economy and security interests. The world is now experiencing tremendous changes that are yet to be seen in a hundred years with both challenges and opportunities emerging. Given that the restructuring and upgrading of domestic economy have yet to be completed and the underlying structural problems of economic performance still exist, they pose certain pressure to the sustainable and stable development of the Chinese economy. This year, China's development environment will become more complicated with mounting economic downward pressure. The macroeconomic trend conditions will inevitably affect the development of relevant industries and sectors. Although the biological compound fertiliser business and elderly care and health care business, the Group's two principal business sectors, are government supported industries, however, they will face multiple uncertainties in future. Therefore, only by giving into full play our inherent advantages and firmly grasp development opportunities then we are able to survive and thrive.

Modern agricultural industry is pursuing a philosophy of energy conservation, low carbon, improved efficiency and green environmental protection and fertilisers that we have largely used in agricultural production bear a historical responsibility in ensuring arable land quality and soil ecological protection, and undertake tremendous responsibility to assure the quality and safety of agricultural products. Currently, functional fertiliser is the key and focus of the fertiliser industry, in particular the development of new type of fertilisers. According to "Ministry of Industry and Information Technology of China's Guiding Opinions on Promoting the Transformation Development of Fertiliser Industry", the goal of increasing the proportion of new type fertiliser used in the overall fertilisers used from less than 10% by far to 30% by 2020 will be strived to achieve. By that time, the market capacity of organic fertilisers will reach 26 million to 39 million tons. Guangdong Fulilong and Shandong Hidersun, the subsidiaries of the Company, will establish an "enterprise-based, market-oriented and industry-university-research integrated" technological innovation system to form an open operating mechanism that can adapt to market, distribute internal forces and connect external resources. We will develop leading product and core technology with independent intellectual property right, make breakthroughs in critical industrial technology bottleneck to fundamentally enhance the core-competitiveness and development strength, and achieve the goals of thriving agriculture, understanding rural conditions and caring farmers. In order to meet the needs of green agricultural development in the new era, the subsidiaries of the Company in compound fertilisers will actively promote the research and development of several new high quality fertilisers including Zhilong active fertilisers, Youbu compound microbial fertiliser and Youjun microbial fertilisers, agent jointly with the research centre on bio-stimulants in The Chinese Academy of Agricultural Sciences in 2019 to practically restore healthy soils and constantly improve the quality and output of agricultural products. Guangdong Fulilong will also play an important part in the future national soil restoration initiative through leveraging on its strong technological strengths plus its long-acquired experience in soil improvement technology.

The Blue Paper on the Development of China's Grand Health Industry (2018) first proposed the concept of grand health industry, with beautiful ecological environment as its base and supported by healthy product manufacturing industry, using health service industry as its core to develop complete industrial chain activities in satisfying the health needs from the public through industrial integration. The Blue Paper proposed the development of grand health industry shall abide the green development vision with positive interactions between sound ecological environment and industrial development. With the help of internet and the development trend of big data, we will take health and elderly care as the main direction to give commercial health insurance into play, endeavor to develop new business model and pattern of the grand health industry, and propel its upgrading and transformation strongly as well. Under the tremendous support from the relevant national policies, the Company is engaged in elderly care business that integrates with medical and caring services, and target to serve those public with complete or partial disability or dementia that have strong demand. Our elderly care management team possesses international vision and learnt advanced international theories as well as practical experience in elderly care from Japan and Holland. We have succeeded in setting up on our own a set of practical and theoretical elderly care system with high standards through making gradual conclusions and achieving localisation. In the days to come, the sub-elderly care business units of the Company will conduct strategic cooperation with top European or even international standards elderly care agencies to jointly create a professional elderly care industrial chain in China, covering professional caring for the seniors with complete or partial disability or dementia, sporting-based rehabilitation, and professional design and manufacturing of elderly care products etc. In respect to the EEG detection business, no massive expansion will take place in the short-run due to the fact that artificial intelligence cloud terminal has yet to be developed maturely, as only the connection between the EEG data management system and the multiple standalone versions of EEG detection has been achieved currently in China, as well as the uncertainties brought by Sino-US trade war. However, the Company will engage active negotiation with Shu Ju Ku Inc. to establish an artificial intelligence cloud terminal in China as soon as possible, so as to provide technical support for the massive expansion of the EEG detection business and to avert the possible adverse effect brought by Sino-US trade war. At the current stage, the Company will establish its self-operated inspection offices based on the existing artificial standalone version or will actively expand our customer base and seek new business partners through exclusive franchising as authorised regional agents.

## DIRECTORS' AND SUPERVISORS' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 31 December 2018, the interests of the directors and supervisors of the Company and their respective associates in the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) were as follows:

**Long position in ordinary shares of RMB0.1 each in the Company:**

| Directors/Supervisors/Executive Officers | Personal | Family | Corporate | Other | Total | Percentage of issued share capital |
|---|---|---|---|---|---|---|
| Ms. Sun Li | – | – | 300,000,000<br>*(Note)* | – | 300,000,000 | 15.83% |

*Note:* Out of these shares, 180,000,000 shares are held by Xiangyong Investment and 120,000,000 shares are held by Lvye Fertilisers. Ms. Sun Li is the beneficial owner Beijing Yingguxinye Investment Co., Ltd. ("Yingguxinye") holding its 15% equity interest, while Yingguxinye holds 100% equity interest in Xiangyong Investment and Lvye Fertilisers, respectively. All of the shares represent domestic shares.

Save as disclosed in this paragraph, as at 31 December 2018, none of the Directors or the Supervisors of the Company had interest in any securities and underlying shares and debentures of the Company or any of its associated corporations, which are required (a) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provisions of the SFO); or (b) pursuant to Section 352 of the SFO, to be entered in the register referred to therein; or (c) otherwise notified to the Company and the Stock Exchange pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules relating to securities transactions by directors to be notified to the Company and the Stock Exchange.

## DIRECTORS' AND SUPERVISORS' RIGHTS TO ACQUIRE SHARES

At no time during the year was the Company or any of its subsidiaries a party to any arrangement to enable the directors and the supervisors of the Company or their respective spouses or children under 18 years of age, to have the rights to subscribe for the Company's securities or to exercise any such rights.

## SUBSTANTIAL SHAREHOLDERS

As at 31 December 2018, the following persons (other than the Directors and the Supervisors of the Company) had interests and short positions in the shares and underlying shares of the Company or any of its associated corporations (within the meaning of Part XV of the SFO), which were notified to the Company pursuant to Divisions 2 and 3 of Part XV of the SFO as recorded in the register required to be kept under Section 336 of the SFO:

Long position in ordinary shares of RMB0.1 each in the Company:

| Names of shareholders | Capacity | Number of ordinary shares | Percentage of the issued share capital |
|---|---|---|---|
| Incubator | Beneficial owner | 182,500,000 *(Note)* | 9.63% |
| Xiangyong Investment | Beneficial owner | 180,000,000 *(Note)* | 9.50% |
| Zhinong Fertilisers | Beneficial owner | 180,000,000 *(Note)* | 9.50% |
| Lvye Fertilisers | Beneficial owner | 120,000,000 *(Note)* | 6.33% |

*Note:* All of the shares represent domestic shares.

Save as disclosed above, as at 31 December 2018, the Directors of the Company were not aware of any other person (other than the Directors and the Supervisors of the Company) who had an interest and short position in the shares and underlying shares of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were notified to the Company pursuant to Divisions 2 and 3 of Part XV of the SFO as recorded in the register required to be kept under Section 336 of the SFO and/or were directly or indirectly interested in 5% or more of the issued share capital carrying rights to vote in all circumstances at general meetings of the Company.

## MANAGEMENT CONTRACTS

No contracts concerning the management or administration of the whole or any substantial part of the business of the Company were entered into or existed during the year.

## COMPETING INTERESTS

During the year ended 31 December 2018, none of the Directors, the Supervisors, or the management shareholders and their respective associates of the Company (as defined under the GEM Listing Rules) competes or may compete with the business of the Group or has or may have any other conflicts of interest with the Group required to be disclosed pursuant to the GEM Listing Rules.

## PURCHASE, SALE OR REDEMPTION OF SECURITIES

The Company did not redeem any of its shares during the period under review. Neither the Company nor any of its subsidiaries have purchased, sold or redeemed any of the Company's shares during the year ended 31 December 2018.

## SHARE OPTION SCHEME

For the year ended 31 December 2018, the Company did not approve any new share option scheme.

## AUDIT COMMITTEE

The Company established an audit committee with written terms of reference in compliance with the GEM Listing Rules and by reference to the "Guidelines for The Establishment of An Audit Committee" published by the Hong Kong Institute of Certified Public Accountants. The audit committee provides an important link between the Board and the Company's auditor in matters coming within the scope of the Group's audit. The primary duties of the committee are to review and supervise the financial reporting process of the Group. It also reviews the effectiveness of the external audit, internal controls and risk evaluation. The audit committee of the Company comprises three independent non-executive directors, namely Mr. Li Xudong, Mr. Wang Yongkang and Ms. Gao Chun during the period under review, among whom, Mr. Li Xudong was appointed as the chairman of the committee due to his professional qualifications in accounting and auditing experience.

The audit committee had held six meetings during the current financial year. The audit committee has reviewed the audited annual results of the Group for the year ended 31 December 2018.

## DIRECTORS' SECURITIES TRANSACTION

For the year ended 31 December 2018, the Company has adopted a code of conduct regarding Directors' securities transactions on terms no less exacting than the required standard of dealings as set out in Rules 5.48 to 5.67 of the GEM Listing Rules. Having made specific enquiry with all Directors, the Directors of the Company have complied with such code of conduct and the required standard of dealings.

## CORPORATE GOVERNANCE PRACTICES

The Board and the management of the Company have endeavored to apply the code provisions as set out in the Corporate Governance Code (the "Code") contained in Appendix 15 of the GEM Listing Rules to the Group. The corporate governance principles which the Company complies emphasis on the establishment of an efficient board of directors and sound internal control, as well as the transparency presented to all of the shareholders. The Directors are of the view that, the Company had complied with all the provisions of the Code except A.2.1 of the Code during the period under review.

By order of the Board
**Tianjin TEDA Biomedical Engineering Company Limited**
**Sun Li**
*Chairman*

Tianjin, the PRC
25 March 2019

*As at the date of this announcement, the executive Directors of the Company are Sun Li, Hao Zhihui and He Xin; the non-executive Directors of the Company are Cao Aixin, Gai Li, and Li Ximing; the independent non-executive Directors of the Company are Li Xudong, Wang Yongkang and Gao Chun.*