**Vincent Medical Holdings Limited**
**永勝醫療控股有限公司**
*(Incorporated in the Cayman Islands with limited liability)*
(Stock code: 1612)

# ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2017, RECOMMENDATION FOR DECLARATION OF FINAL DIVIDEND, CLOSURE OF REGISTER OF MEMBERS AND RETIREMENT OF A NON-EXECUTIVE DIRECTOR

## FINANCIAL HIGHLIGHTS

- Revenue for the year ended 31 December 2017 ("**2017**") decreased by 4.5% to HK$446.3 million as compared to that of HK$467.3 million for the year ended 31 December 2016 ("**2016**").

- Gross profit for 2017 increased by 3.1% to HK$150.3 million (2016: HK$145.8 million). Gross profit margin for 2017 improved to 33.7% (2016: 31.2%).

- Profit attributable to owners of the Company for 2017 was HK$13.2 million (2016: HK$29.2 million).

- Basic earnings per share of the Company for 2017 was HK2.06 cents per share.

- Proposed final dividend of HK1.50 cents per share for 2017, to be payable on or around Wednesday, 20 June 2018.

## ANNUAL RESULTS

The board (the "**Board**") of directors (the "**Directors**") of Vincent Medical Holdings Limited (the "**Company**") is pleased to announce the audited consolidated annual results of the Company and its subsidiaries (collectively the "**Group**") for the year ended 31 December 2017, together with the comparative figures for the previous financial year as follows:

## CONSOLIDATED STATEMENT OF PROFIT OR LOSS

*FOR THE YEAR ENDED 31 DECEMBER 2017*

| | *Note* | **2017** *HK$'000* | 2016 *HK$'000* |
|---|---|---|---|
| **Revenue** | 4 | **446,302** | 467,347 |
| Cost of sales | | **(295,999)** | (321,585) |
| **Gross profit** | | **150,303** | 145,762 |
| Other income | 5 | **684** | 5,948 |
| Distribution costs | | **(23,067)** | (15,485) |
| Administrative expenses | | **(89,123)** | (88,076) |
| Impairment of goodwill | | **(6,291)** | – |
| Impairment of investment in an associate | | **(11,629)** | – |
| **Profit from operations** | | **20,877** | 48,149 |
| Finance costs - interest on borrowings | | **(361)** | (339) |
| Share of losses of associates | | **(1,003)** | (114) |
| Share of profits of joint ventures | | **104** | – |
| **Profit before tax** | | **19,617** | 47,696 |
| Income tax expense | 7 | **(8,163)** | (10,614) |
| **Profit for the year** | 8 | **11,454** | 37,082 |
| **Attributable to:** | | | |
| Owners of the Company | | **13,155** | 29,242 |
| Non-controlling interests | | **(1,701)** | 7,840 |
| | | **11,454** | 37,082 |
| **Earnings per share** | 10 | | |
| Basic | | **HK2.06 cents** | HK5.27 cents |
| Diluted | | **HK2.06 cents** | HK5.25 cents |

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

*FOR THE YEAR ENDED 31 DECEMBER 2017*

| | **2017** | 2016 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| **Profit for the year** | **11,454** | 37,082 |
| **Other comprehensive income:** | | |
| *Items that may be reclassified to profit or loss:* | | |
| Share of other comprehensive income of joint ventures | **17** | – |
| Exchange differences on translating foreign operations | **9,393** | (12,104) |
| **Other comprehensive income for the year, net of tax** | **9,410** | (12,104) |
| **Total comprehensive income for the year** | **20,864** | 24,978 |
| **Attributable to:** | | |
| Owners of the Company | **20,600** | 19,318 |
| Non-controlling interests | **264** | 5,660 |
| | **20,864** | 24,978 |

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**
*AT 31 DECEMBER 2017*

| | Note | **2017** | 2016 |
|---|---|---|---|
| | | ***HK$'000*** | *HK$'000* |
| **ASSETS** | | | |
| **Non-current assets** | | | |
| Property, plant and equipment | | **47,190** | 40,131 |
| Goodwill | 11 | **4,270** | 9,591 |
| Other intangible assets | | **26,333** | 14,628 |
| Investments in associates | 12 | **4,760** | 16,460 |
| Investments in joint ventures | | **22,988** | – |
| Available-for-sale financial assets | | **48,640** | – |
| **Total non-current assets** | | **154,181** | 80,810 |
| **Current assets** | | | |
| Inventories | | **97,439** | 87,899 |
| Trade receivables | 13 | **115,443** | 75,223 |
| Prepayments, deposits and other receivables | | **41,826** | 29,060 |
| Current tax assets | | **3,277** | – |
| Bank and cash balances | | **112,993** | 222,206 |
| **Total current assets** | | **370,978** | 414,388 |
| **TOTAL ASSETS** | | **525,159** | 495,198 |
| **EQUITY AND LIABILITIES** | | | |
| Share capital | | **6,380** | 6,380 |
| Reserves | | **358,805** | 344,692 |
| Equity attributable to owners of the Company | | **365,185** | 351,072 |
| Non-controlling interests | | **49,766** | 50,404 |
| **Total equity** | | **414,951** | 401,476 |

| | Note | 2017 HK$'000 | 2016 HK$'000 |
|---|---|---|---|
| **Non-current liabilities** | | | |
| Borrowings | | **–** | 1,450 |
| Deferred tax liabilities | | **2,395** | 2,415 |
| **Total non-current liabilities** | | **2,395** | 3,865 |
| **Current liabilities** | | | |
| Trade payables | 14 | **43,276** | 32,866 |
| Other payables and accruals | | **46,156** | 47,039 |
| Borrowings | | **9,824** | 3,167 |
| Current tax liabilities | | **8,557** | 6,785 |
| **Total current liabilities** | | **107,813** | 89,857 |
| **TOTAL EQUITY AND LIABILITIES** | | **525,159** | 495,198 |
| **Net current assets** | | **263,165** | 324,531 |
| **Total assets less current liabilities** | | **417,346** | 405,341 |

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*FOR THE YEAR ENDED 31 DECEMBER 2017*

### 1. GENERAL INFORMATION

The Company was incorporated as an exempted company in the Cayman Islands under the Companies Law of the Cayman Islands on 19 November 2015. The address of its registered office is Cricket Square, Hutchins Drive, PO Box 2681, Grand Cayman, KY1-1111, Cayman Islands. The address of its principal place of business is Flat B2, 7/F, Phase 2, Hang Fung Industrial Building, 2G Hok Yuen Street, Hung Hom, Hong Kong. The Company's shares are listed on the main board of The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**").

The Company is an investment holding company. Its subsidiaries are principally engaged in manufacturing, trading, and research and development of medical devices.

In the opinion of the Directors, Vincent Raya International Limited, a company incorporated in the British Virgin Islands, is the ultimate parent of the Company. Mr. Choi Man Shing and Ms. Liu Pui Ching are the ultimate controlling parties of the Company.

### 2. BASIS OF PREPARATION

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

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

## 3. ADOPTION OF NEW AND REVISED HKFRSS

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

The HKICPA has issued a number of new and revised HKFRSs that are first effective for annual periods beginning on or after 1 January 2017. None of these impacts on the accounting policies of the Group. However, the Amendments to HKAS 7 Statement of Cash Flows: Disclosure Initiative require disclosure of changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes.

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

The Group has not early applied new and revised HKFRSs that have been issued but are not yet effective for the financial year beginning 1 January 2017. These new and revised HKFRSs include the following which may be relevant to the Group.

| | **Effective for accounting periods beginning on or after** |
|---|---|
| HKFRS 9 Financial Instruments | 1 January 2018 |
| HKFRS 15 Revenue from Contracts with Customers | 1 January 2018 |
| HKFRS 16 Leases | 1 January 2019 |

The Group is in the process of making an assessment of what the impact of these amendments and new standards is expected to be in the period of initial application. So far the Group has identified some aspects of the new standards which may have a significant impact on the consolidated financial statements. Further details of the expected impacts are discussed below. While the assessment has been substantially completed for HKFRS 9 and HKFRS 15, the actual impacts upon the initial adoption of the standards may differ as the assessment completed to date is based on the information currently available to the Group, and further impacts may be identified before the standards are initially applied in the Group's interim financial report for the six months ended 30 June 2018. The Group may also change its accounting policy elections, including the transition options, until the standards are initially applied in that interim financial report.

**HKFRS 9 Financial Instruments**

HKFRS 9 will replace HKAS 39 Financial Instruments: Recognition and Measurement. HKFRS 9 introduces new requirements for classification and measurement of financial assets, new rules for hedge accounting and a new impairment model for financial assets.

HKFRS 9 is effective for annual periods beginning on or after 1 January 2018 on a retrospective basis. The Group plans to adopt the new standard on the required effective date and will not restate comparative information.

Based on an analysis of the Group's financial assets and financial liabilities as at 31 December 2017 on the basis of the facts and circumstances that exist at that date, the Directors have assessed the impact of HKFRS 9 to the Group's consolidated financial statements as follows:

**(a) Classification and measurement**

The Group expects to irrevocably designate those unlisted equity securities currently classified as available-for-sale as at fair value through other comprehensive income.

Fair value gains and losses on these instruments will no longer be recycled to profit or loss on disposal. Impairment losses on equity securities will no longer be recognised in profit or loss but rather in other comprehensive income. In addition, the Group currently measures certain unlisted equity securities at cost less impairment. Under HKFRS 9 these instruments will be measured at fair value. Based on a preliminary assessment, the fair value of these unlisted equity securities was amounted to approximately HK$61,398,000 at 31 December 2017.

**(b) Impairment**

HKFRS 9 requires the Group to recognise and measure either a 12-month expected credit loss or lifetime expected credit loss, depending on the asset and the facts and circumstances. The Group expects that the application of the expected credit loss model will result in earlier recognition of credit losses.

However, based on a preliminary assessment, if the Group were to adopt the new impairment requirements at 31 December 2017, there would not be material difference on the accumulated impairment loss at that date as compared with that recognised under HKAS 39.

**HKFRS 15 Revenue from Contracts with Customers**

HKFRS 15 establishes a comprehensive framework for recognising revenue from contracts with customers. HKFRS 15 will replace the existing revenue standards, HKAS 18, Revenue, which covers revenue arising from sale of goods and rendering of services, and HKAS 11, Construction contracts, which specifies the accounting for revenue from construction contracts.

HKFRS 15 is effective for annual periods beginning on or after 1 January 2018. The standard permits either a full retrospective or a modified retrospective approach for the adoption. The Group intends to adopt the standard using the modified retrospective approach which means that the cumulative impact of the adoption will be recognised in retained earnings as of 1 January 2018 and that comparatives will not be restated.

Based on the assessment completed to date, the Group has identified the following areas which are expected to be affected:

**(a) Timing of revenue recognition**

Currently, revenue from the sale of manufactured goods (both OEM and OBM) is generally recognised when the risks and rewards of ownership have passed to the customers.

Under HKFRS 15, revenue is recognised when the customer obtains control of the promised good or service in the contract. HKFRS 15 identifies 3 situations in which control of the promised good or service is regarded as being transferred over time:

a) When the customer simultaneously receives and consumes the benefits provided by the entity's performance, as the entity performs;

b) When the entity's performance creates or enhances an asset (for example work in progress) that the customer controls as the asset is created or enhanced;

c) When the entity's performance does not create an asset with an alternative use to the entity and the entity has an enforceable right to payment for performance completed to date.

If the contract terms and the entity's activities do not fall into any of these 3 situations, then under HKFRS 15 the entity recognises revenue for the sale of that good or service at a single point in time, being when control has passed. Transfer of risks and rewards of ownership is only one of the indicators that will be considered in determining when the transfer of control occurs.

For revenue from the sales of manufactured OEM goods, the adoption of HKFRS 15 is expected to have significant impact on the Group's revenue or profit or loss. The Group will change the timing of revenue recognition on certain OEM contracts and expects that revenue will be recognised over time (i.e. as production occurs) rather than at a point in time (i.e. on delivery of goods) for these contracts. However, the Group could not quantify the impact until a detailed assessment has been performed.

For revenue from the sales of manufactured OBM goods, the adoption of HKFRS 15 is not expected to have any impact on the Group's revenue or profit or loss. The Group expects the revenue recognition to occur at a point in time when control of the asset is transferred to the customer, generally on delivery of the goods.

**HKFRS 16 Leases**

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

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

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

The Group's future minimum lease payments under non-cancellable operating leases for its office and factory premises amounted to approximately HK$21,151,000 as at 31 December 2017. These leases are expected to be recognised as lease liabilities, with corresponding right-of-use assets. Once HKFRS 16 is adopted, the amounts will be adjusted for the effects of discounting and the transition reliefs available to the Group.

## 4. REVENUE

The Group's revenue represents sales of medical devices to customers. An analysis of the Group's revenue by products for the year is as follows:

| | **2017** | 2016 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Respiratory products | **157,194** | 151,820 |
| Imaging disposable products | **165,748** | 180,817 |
| Orthopaedic and rehabilitation products | **75,982** | 76,403 |
| Other products | **47,378** | 58,307 |
| | **446,302** | 467,347 |

## 5. OTHER INCOME

| | **2017** | 2016 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Exchange gain, net | **–** | 1,141 |
| Interest income | **132** | 57 |
| Sundry income | **552** | 2,543 |
| Write back of trade payables | **–** | 2,207 |
| | **684** | 5,948 |

## 6. SEGMENT INFORMATION

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the directors of the Group that makes strategic and operating decisions.

Directors of the Group review the internal reporting of the Group in order to assess performance and allocate resources. From business model perspective, management assesses the performance of two operating segments, which are original equipment manufacturing ("**OEM**") and original brand manufacturing ("**OBM**").

- OEM whereby products are manufactured in accordance with the customer's specification for sale under the customer's or third party's brand.

- OBM comprises research, development, manufacturing, marketing and sales of medical devices under the "Inspired Medical", "Hand of Hope" and "Hypnus" brands.

Segment profits or losses do not include interest income, interest expenses, listing-related expenses, share-based payments, share of losses of associates, share of profits of joint ventures, write back of trade payables, impairment of investment in an associate, corporate income and corporate expenses.

Segment assets and liabilities of the Group are not reported to the directors of the Group regularly. As a result, reportable segment assets and liabilities have not been presented in the consolidated financial statements.

**Information about reportable segment profit or loss:**

| | **OEM** | **OBM** | **Total** |
|---|---|---|---|
| | ***HK$'000*** | ***HK$'000*** | ***HK$'000*** |
| **Year ended 31 December 2017** | | | |
| Revenue from external customers | **365,970** | **80,332** | **446,302** |
| Segment profit/(loss) | **66,383** | **(26,664)** | **39,719** |
| Allowance for trade receivables | **–** | **110** | **110** |
| Depreciation and amortisation | **7,864** | **4,761** | **12,625** |
| Impairment of goodwill | **–** | **6,291** | **6,291** |
| Research and development expenditure | **–** | **11,828** | **11,828** |
| Year ended 31 December 2016 | | | |
| Revenue from external customers | 400,657 | 66,690 | 467,347 |
| Segment profit/(loss) | 68,868 | (2,939) | 65,929 |
| Depreciation and amortisation | 8,626 | 3,846 | 12,472 |
| Research and development expenditure | – | 5,830 | 5,830 |

**Reconciliations of reportable segment revenue and profit or loss:**

| | **2017** | 2016 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| **Revenue** | | |
| Total revenue of reportable segments | **446,302** | 467,347 |
| **Profit or loss** | | |
| Total profit or loss of reportable segments | **39,719** | 65,929 |
| Interest income | **132** | 57 |
| Interest expenses | **(361)** | (339) |
| Listing-related expenses | **–** | (17,964) |
| Share-based payments | **(3,083)** | (2,714) |
| Share of losses of associates | **(1,003)** | (114) |
| Share of profits of joint ventures | **104** | – |
| Write back of trade payables | **–** | 2,207 |
| Impairment of investment in an associate | **(11,629)** | – |
| Unallocated corporate income | **552** | 3,684 |
| Unallocated corporate expenses | **(4,814)** | (3,050) |
| Consolidated profit before tax | **19,617** | 47,696 |

**Geographical information:**

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

| | **Revenue** | |
|---|---|---|
| | **2017** | 2016 |
| | ***HK$'000*** | *HK$'000* |
| United States (the "**US**") | **315,800** | 323,298 |
| The People's Republic of China (the "**PRC**") | **44,197** | 39,355 |
| Netherlands | **16,611** | 34,370 |
| Australia | **15,796** | 17,922 |
| Japan | **13,717** | 13,904 |
| Others | **40,181** | 38,498 |
| | **446,302** | 467,347 |

| | Non-current assets | |
|---|---|---|
| | **2017** | 2016 |
| | ***HK$'000*** | *HK$'000* |
| Hong Kong | **36,676** | 30,993 |
| The PRC | **68,865** | 39,095 |
| Australia | **–** | 10,722 |
| | **105,541** | 80,810 |

**Revenue from major customers:**

| | **2017** | 2016 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| OEM segment | | |
| Customer A | **169,032** | 187,508 |
| Customer B | **76,009** | 103,757 |

## 7. INCOME TAX EXPENSE

| | **2017** | 2016 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Current tax – Hong Kong Profits Tax | | |
| Provision for the year | **5,408** | 6,012 |
| Under/(Over)-provision in prior years | **6** | (20) |
| | **5,414** | 5,992 |
| Current tax – the PRC | | |
| Provision for the year | **2,732** | 4,365 |
| Under-provision in prior years | **37** | 95 |
| | **2,769** | 4,460 |
| Deferred tax | **(20)** | 162 |
| Income tax expense | **8,163** | 10,614 |

Hong Kong Profits Tax has been provided at a rate of 16.5% (2016: 16.5%) on the estimated assessable profit for the year ended 31 December 2017.

Under the Corporate Income Tax Law of the PRC which became effective from 1 January 2008, the standard corporate income tax rate is 25% except for Vincent Medical (Dongguan) Mfg. Co. Ltd. (東莞永勝醫療製品有限公司) which is qualified as High and New Tech Enterprise and would be entitled to a reduced corporate income tax rate of 15%. The relevant tax rates for the Company's PRC subsidiaries range from 15% to 25%.

## 8. PROFIT FOR THE YEAR

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

| | **2017** | 2016 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Allowance for inventories (included in cost of inventories sold) | **448** | 18 |
| Allowance for trade receivables | **110** | – |
| Amortisation | **1,829** | 1,522 |
| Auditor's remuneration | **1,655** | 1,485 |
| Cost of inventories sold | **295,999** | 321,585 |
| Depreciation | **10,814** | 11,094 |
| Directors' emoluments | **6,252** | 4,685 |
| Equity-settled share-based payments | **3,083** | 2,714 |
| Exchange loss/(gain), net | **3,857** | (1,141) |
| Impairment of goodwill | **6,291** | – |
| Impairment of investment in an associate | **11,629** | – |
| Listing-related expenses | **–** | 17,964 |
| Operating lease charges – land and buildings | **10,143** | 9,688 |
| Research and development expenditure | **19,147** | 9,587 |
| Staff costs (including directors' emoluments) | **113,228** | 95,967 |
| Write back of trade payables | **–** | (2,207) |
| Write off of property, plant and equipment | **543** | 99 |

Cost of inventories sold include staff costs of approximately HK$63,663,000 (2016: HK$53,235,000), depreciation of approximately HK$7,371,000 (2016: HK$7,763,000), and operating lease charges of approximately HK$3,788,000 (2016: HK$3,521,000), which are included in the amounts disclosed separately.

Research and development expenditure include staff costs of approximately HK$5,846,000 (2016: HK$3,464,000), depreciation of approximately HK$530,000 (2016: HK$151,000), and operating lease charges of approximately HK$943,000 (2016: HK$142,000), which are included in the amounts disclosed separately.

## 9. DIVIDEND

| | **2017** | 2016 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| 2016 Final of HK1.5 cents (2016: 2015 Final of HK$Nil) per ordinary share | **9,570** | – |

Subsequent to the end of the reporting period, final dividend in respect of the year ended 31 December 2017 of HK1.50 cents per share has been proposed by the Directors and is subject to approval by the shareholders of the Company (the "**Shareholders**") at the forthcoming annual general meeting of the Company to be held on 24 May 2018 (the "**AGM**").

## 10. EARNINGS PER SHARE

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

| | **2017** | 2016 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| **Earnings** | | |
| Profit attributable to owners of the Company | **13,155** | 29,242 |
| | ***'000*** | *'000* |
| **Number of shares** | | |
| Weighted average number of ordinary shares for the purpose of calculating basic earnings per share | **638,000** | 554,746 |
| Effect of dilutive potential ordinary shares arising from share options issued by the Company | **1,751** | 2,161 |
| Weighted average number of ordinary shares for the purpose of calculating diluted earnings per share | **639,751** | 556,907 |

## 11. GOODWILL

| | **2017** | 2016 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| **Cost** | | |
| At 1 January | **9,591** | 9,591 |
| Arising on acquisition of a subsidiary | **970** | – |
| At 31 December | **10,561** | 9,591 |
| **Accumulated impairment loss** | | |
| At 1 January | **–** | – |
| Impairment loss recognised in the current year | **6,291** | – |
| At 31 December | **6,291** | – |
| **Carrying amount** | | |
| At 31 December | **4,270** | 9,591 |

Goodwill acquired in a business combination is allocated, at acquisition, to the cash-generating units (the "**CGUs**") that are expected to benefit from that business combination. The carrying amount of goodwill had been allocated as follows:

| | **2017** | 2016 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Development of "Hand of Hope" robotic hand training devices | | |
| Rehab-Robotics Company Limited ("**RRCL**") | **3,300** | 9,591 |
| Manufacturing and trading of "Hypnus" branded continuous positive airway pressure ("**CPAP**") equipment | | |
| Guangzhou Hypnus Healthcare Technology Co., Limited ("**GZ Hypnus**") | **970** | - |
| | **4,270** | 9,591 |

The recoverable amounts of the CGUs have been determined on the basis of their value in use using discounted cash flow method. The key assumptions for the discounted cash flow method are those regarding the discount rates, growth rates and budgeted gross margin and turnover during the period. The Group estimates discount rates using pre-tax rates that reflect current market assessments of the time value of money and the risks specific to the CGUs. The growth rates are based on long-term average economic growth rate of the geographical area in which the businesses of the CGUs operate. Budgeted gross margin and turnover are based on past practices and expectations on market development.

The Group prepares cash flow forecasts derived from the most recent financial budgets approved by the Directors for the next five years with the residual period using the growth rate of 3% (2016: 3%) and 3% (2016: Nil) for development and trading of the "Hand of Hope" robotic hand training devices business and manufacturing and trading of the "Hypnus" branded CPAP equipment respectively. These rates do not exceed the average long-term growth rate for the relevant markets.

The rate used to discount the forecast cash flows from the Group's development and trading of the "Hand of Hope" robotic hand training devices business and manufacturing and trading of the "Hypnus" branded CPAP equipment are 21.5% (2016: 20%) and 20% (2016: Nil) respectively.

At 31 December 2017, before impairment testing, goodwill of approximately HK$9,591,000 was allocated to RRCL under the development of "Hand of Hope" robotic hand training devices business. After review of the sales progress of "Hand of Hope" and the fact that the number of units sold is less than the expected level and the delay in development of new products, the Directors have determined to make impairment loss of goodwill of approximately HK$6,291,000.

## 12. INVESTMENTS IN ASSOCIATES

| | **2017** | 2016 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Unlisted investments: | | |
| Share of net assets | **1,942** | 4,195 |
| Goodwill | **2,818** | 12,265 |
| | **4,760** | 16,460 |

In light of the prolonged delay with uncertain timeline of the product development for market launch and severe financial difficulty experienced by Ventific Holdings Pty Ltd ("**Ventific**"), the Directors considered that indicators of impairment existed in respect of the investment in Ventific, and as the recoverable amount is considered to be negligible, full impairment loss was made on the investment in Ventific.

## 13. TRADE RECEIVABLES

The general credit terms of the Group granted to its customers range from 30 to 90 days. The Group seeks to maintain strict control over its outstanding receivables. Overdue balances are reviewed regularly by the Directors.

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

| | **2017** | 2016 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| 0 to 30 days | **39,925** | 35,910 |
| 31 to 60 days | **27,348** | 23,333 |
| 61 to 90 days | **22,249** | 4,602 |
| Over 90 days | **25,921** | 11,378 |
| | **115,443** | 75,223 |

As at 31 December 2017, an allowance was made for estimated irrecoverable trade receivables of approximately HK$110,000 (2016: HK$Nil).

**Reconciliation of allowance for trade receivables:**

| | **2017** | 2016 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| At 1 January | **–** | 895 |
| Allowance for the year | **110** | (895) |
| At 31 December | **110** | – |

As of 31 December 2017, trade receivables of approximately HK$44,195,000 (2016: HK$13,726,000) were past due but not impaired. The ageing analysis of these trade receivables is as follows:

| | **2017** | 2016 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Overdue by: | | |
| Up to 3 months | **40,019** | 6,928 |
| Over 3 months | **4,176** | 6,798 |
| | **44,195** | 13,726 |

Overdue balances relate to a number of independent customers that have good track record with the Group. Based on past experience, management believes that no impairment allowance is necessary in respect of these balances as there has not been significant change in credit quality and the balances are still considered fully recoverable. The Group does not hold any collateral over these balances.

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

| | **2017** | 2016 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Hong Kong dollars ("**HKD**" or "**HK$**") | **1,133** | 1,462 |
| Renminbi ("**RMB**") | **12,885** | 7,923 |
| US dollars ("**USD**" or "**US$**") | **101,425** | 65,838 |
| | **115,443** | 75,223 |

## 14. TRADE PAYABLES

The ageing analysis of trade payables, based on the date of receipt of goods, is as follows:

| | **2017** | 2016 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| 0 to 30 days | **20,784** | 18,119 |
| 31 to 60 days | **7,134** | 4,340 |
| Over 60 days | **15,358** | 10,407 |
| | **43,276** | 32,866 |

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

| | **2017** | 2016 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| HKD | **3,865** | 5,597 |
| RMB | **23,106** | 15,846 |
| USD | **16,271** | 10,965 |
| Others | **34** | 458 |
| | **43,276** | 32,866 |

## MANAGEMENT DISCUSSION AND ANALYSIS

### REVIEW OF OPERATIONS

A gradual recovery of the global economy continued in 2017. The US economy showed strong signs of growth on the back of an improving job market. In Asia and the PRC, the speed of economic expansion accelerated even further, as indicated by the growth in personal consumption and foreign trade. However, the appreciation of Renminbi during the year has resulted in pressure on profitability of export companies.

In 2017, the Group has continued to focus on its core strategies of growing the OBM business through expanding its product offering. Research and development ("**R&D**") activities have become a more important part of the Group's business. In 2017, R&D expenses increased by 99.7% as compared to that for 2016 and accounted for 4.3% of revenue (2016: 2.1%). These expenditures are related to the processes of testing and developing new products, improving existing products, collaborating with overseas technology companies, as well as ensuring product efficacy and regulatory compliance prior to launch.

During 2017, the Group has also made a number of investments in overseas medical device developers, with an aim to manufacture and market their respective products in its principal markets.

With more resources devoted to regulatory affairs and quality assurance, the Group has strengthened its ability to manage the product registration procedures. During the year, the Group has successfully received clearance from China Food and Drug Administration of the PRC ("**CFDA**") for products including the ultrasonic nebulizer, the heated wire breathing circuit, the Hypnus CPAP machine, the CPAP face mask and the single use heat and moisture exchange filters.

## OEM BUSINESS

The OEM business remains as the Group's major business segment and accounted for 82.0% of total revenue (2016: 85.7%). Despite new customers and product launches, the segment recorded a decrease in revenue of 8.7% from HK$400.7 million to HK$366.0 million, mainly due to a lower sales volume of its imaging disposable products and reduced orders on respiratory products from one of its OEM customers in the US. This OEM customer has undergone shareholding change and operational restructuring in the last two years which has affected its business operation. Sales of other products decreased by 18.7% from HK$58.3 million to HK$47.4 million mainly due to the drop in income of mould production from one of its OEM customers.

On 20 December 2017, the Group has entered into a supplemental agreement (the "**Supplemental Agreement**") with Bayer HealthCare LLC (the Group's major OEM customer in the imaging disposable products segment) to renew and extend the supply agreement. The extended partnership strengthens the stable and long-standing cooperation between both companies. Under the terms of the Supplemental Agreement, Bayer HealthCare LLC and Imaxeon Pty Ltd. will continue to acquire imaging disposable products and related components and sub-assemblies from the Group for the next two years. For details, please refer to the Company's announcements dated 21 December 2017 and 15 January 2018.

The following table sets forth the revenue breakdown of the Group's OEM business by product category:

| | **For the year ended 31 December** | | | | |
|---|---|---|---|---|---|
| | **2017** | | 2016 | | Change |
| | ***HK$'000*** | ***%*** | *HK$'000* | *%* | |
| Respiratory products | **87,002** | **23.8** | 91,576 | 22.9 | –5.0% |
| Imaging disposable products | **165,748** | **45.3** | 180,817 | 45.1 | –8.3% |
| Orthopaedic and rehabilitation products | **65,842** | **18.0** | 69,957 | 17.5 | –5.9% |
| Other products | **47,378** | **12.9** | 58,307 | 14.5 | –18.7% |
| Total | **365,970** | **100.0** | 400,657 | 100.0 | –8.7% |

## OBM BUSINESS

The OBM business achieved another year of double-digit growth as revenue increased by 20.5% from HK$66.7 million to HK$80.3 million. Under the OBM business segment, while sales generated from the PRC market grew by 12.2% from HK$39.4 million to HK$44.2 million, sales generated from overseas market (including Hong Kong) also jumped by 32.2% from HK$27.3 million to HK$36.1 million. Such growth was primarily attributable to new product release and enhanced sales and marketing efforts.

The following table sets forth the revenue breakdown of the Group's OBM business by product category:

| | For the year ended 31 December | | | | |
|---|---|---|---|---|---|
| | **2017** | | 2016 | | Change |
| | ***HK$'000*** | *%* | *HK$'000* | *%* | |
| Respiratory products | **70,192** | **87.4** | 60,244 | 90.3 | 16.5% |
| Orthopaedic and rehabilitation products | **10,140** | **12.6** | 6,446 | 9.7 | 57.3% |
| Total | **80,332** | **100.0** | 66,690 | 100.0 | 20.5% |

The sales of the OBM respiratory products continued to gain momentum given the launch of the new humidification system (including circuits, humidification chamber, humidifier and respiratory filter) in the international market in the third quarter of 2017. The Group is spending every effort to bolster its sales support and after-sales service structures in support of the sales of new device and system going forward.

For the OBM orthopaedic and rehabilitation products segment, sales of adjustable functional braces recorded satisfactory growth, which was however partially offset by the significant sales drop of the "Hand of Hope" robotic hand training devices. Sales of the "Hand of Hope" decreased from HK$3.4 million to HK$2.7 million, primarily due to the needs for product optimization and redesign of certain parts and firmware of the device. As a result, resources were predominantly spent on the product optimization and the ongoing discussion with certain potential partners in the industry to market the device in specific markets. A new version of the "Hand of Hope" with functional enhancement and new features that targets a wider group of patients is expected to be launched in mid-2018.

**Expanding sales and marketing network**

The Group continued to make solid steps in expanding and strengthening its sales and distribution network. For the PRC market, in order to swiftly adapt to the evolving regulatory environment, the Group constantly reviews and optimizes its list of distributors. During 2017, the Group sold its products to over 400 distributors covering over 28 provinces and regions. In August 2017, the Group opened its third sales support office in Shanghai, aiming to better serve its customers.

In 2017, the Group continued to participate in various important trade shows and exhibitions including the MEDICA, Arab Health, CMEF and some other industry conferences in the US, the United Arab Emirates, the Czech Republic, South Korea, the PRC and Hong Kong. The Group exhibited the first time at the International Congress of the European Respiratory Society (the "**ERS Congress**") in Milan to showcase its new CPAP machine. The ERS Congress is the largest respiratory meeting in the world that brings together professionals from all areas of the respiratory industry. Through these events, the Group has successfully reached out to new customers, researchers, clinicians, general practitioners and allied health professionals. The Group was able to develop a more geographically diversified business with sales to new markets including Latin America recorded during the year.

Furthermore, the Group's OBM products also saw opportunities to collaborate with global medical devices companies in private label or through the distribution of the "Inspired Medical" branded products. Exclusive distribution partnership with industry leaders will give us access to a broader distribution channels for our products.

**New logo of the "Inspired Medical" brand for international market**

In conjunction with the official unveiling of a series of new products which includes High Flow Oxygen Therapy (an increasing number of clinicians using this in non-invasive therapy) and significant improvements to the current humidification system for the international market, the Group launched its new Inspired Medical logo "inspired™" and a dedicated product website during the year under review. The new logo and branding reflects a new global spirit and a commitment to quality, innovation and reliability. Product design has also been modernized to better suit international customers.

**Investment in medical device/technology companies to broaden product portfolio**

To meet its growth ambition of adding new products to its OBM business, the Group has continued to identify suitable investment and collaboration opportunities. During the year under review, the Group continued to closely monitor the progress of its existing partners and had invested in a number of medical device/technology companies with products that will complement the Group's existing product portfolio. For most of the Group's investment, the Group appointed its representative to the investee company's board for effective supervision.

In January 2017, the Group invested in Inovytec Medical Solutions Limited ("**Inovytec**"), an Israeli private company focusing on the development of medical devices for airway managements, oxygen therapy and defibrillation in respiratory and cardiac emergency situations. The Group was granted the exclusive rights to manufacture and distribute Inovytec's products in the PRC market. Inovytec's first product, the LUBO, a non-invasive upper airway opening device combined with a cervical collar, is now selling in the PRC market through the Group. SALI, the automated oxy-defibrillator, obtained CE certification in June 2017 and is now deployed in a number of hospitals or healthcare centers in Germany and Israel. Inovytec has also submitted the CE Marking Application for its portable ventilator in 2017. For additional information, please refer to the paragraph headed "Material Acquisitions and Disposals" below.

In April 2017, the Group invested in Fresca Medical, Inc. ("**Fresca**"), a California-based sleep solution and connected health company that is developing a system for the treatment of obstructive sleep apnea. The Group is also granted the exclusive rights to manufacture and distribute such product in the PRC and Japan. Fresca made considerable progress in product development and submitted its USFDA 510(k) application in December 2017. For additional information, please refer to the paragraph headed "Available-for-sale Financial Assets" below.

In September 2017, the Group invested in Avalon Photonics Holdings Limited ("**Avalon**"), a Hong Kong based medical device and technologies company that researches and develops phototherapeutic technologies for managing various diseases. Kanga-care™, a LED-based Wearable Phototherapy Device for neonatal jaundice that is jointly developed by Avalon and the Group, has received CFDA approval in February 2018. The Group was granted the exclusive distribution rights of the device in the PRC and will also be responsible for the manufacturing of the device and its consumables. The Group expects to generate income from the sale of Kanga-care™ in 2018. For additional information , please refer to the paragraph headed "Material Acquisitions and Disposals" below.

Due to prolonged delay with uncertain timeline of the product development for market launch and severe financial difficulty experienced by Ventific, the Group has made an impairment loss of HK$11.6 million on its interest and the goodwill arising from the investment in Ventific. Ventific is an Australian technology company which owns CPAP-related technologies for treating sleep apnea and other respiratory disorders. This impairment loss had no impact on the cash flow of the Group as they were non-cash expenses.

### To set up operations in Songshan Lake, Dongguan

With an aim to facilitate and speed up the product R&D and registration process in the PRC, the Group joined the "Guan-Rong Plan" of Dongguan Songshan Lake Science and Technology Industrial Park (the "**Industrial Park**") in December 2017. The Group plans to relocate the R&D, production and sales functions of the more sophisticated electronic devices to the Industrial Park in 2018.

With the support from the Dongguan Municipal Government, selective biotechnology or medical technology companies are invited to set up its operations in the Industrial Park and the Industrial Park will provide full range of product development and product registration support services to its member companies.

### Outlook

The Group expects the global medical device industry will continue to experience significant growth in the future. Market expansion will be driven by increasing per capita health expenditure, the introduction of innovative devices, and the growing demand generated by illnesses associated with aging populations, especially on devices for the treatment of age-related illnesses e.g. chronic respiratory and cardiovascular diseases. However, the entire medical device development cycle is much longer than everyday business and has become increasingly complex due to evolving regulatory requirements and healthcare reimbursement policies.

Following the release of the "13th Five-Year Plan for Medical and Healthcare System Reform" and the "Healthy China 2030 Planning Outline", the PRC government had further strengthened its efforts on the healthcare system reform in 2017. With government policy supporting innovation in the domestic medical device industry along with the "Made in China 2025" strategy, the Group expects to see a faster consolidation of local medical device manufacturers and more collaboration with overseas medical technology companies. With the implementation of the two-invoice system and the tendering and bidding mechanism for medical device, the Group will need to spend additional resources to navigate through the ongoing evolution of the regulatory environment. The Group anticipates future sales in the PRC market will be driven by volume growth with a general reduction in price of generic medical devices and consumables.

In 2018, the Group's prime focus will be on three priority areas: (1) To restore growth in revenue - driven by the roll out of new products and market expansion; (2) To keep a keen eye on our investments and strive to create win-win outcomes for us and our partners; and (3) To drive cost efficiency throughout the entire value chain.

While the Group will continue to cautiously invest in product development and marketing, we expect to see a stronger sales momentum of our Inspired Medical products, a stronger product pipeline and a broader portfolio of products in the years to come.

## FINANCIAL REVIEW

### REVENUE

Despite the 20.5% increase in revenue generated from the Group's OBM business, total revenue of the Group for 2017 decreased by 4.5% to HK$446.3 million (2016: HK$467.3 million), as a result of a 8.7% decrease in the revenue generated from the Group's OEM business.

| | Year ended 31 December | |
|---|---|---|
| | **2017** | 2016 |
| | ***HK$'000*** | *HK$'000* |
| **By business** | | |
| OEM | **365,970** | 400,657 |
| OBM | **80,332** | 66,690 |
| Total | **446,302** | 467,347 |
| **By product category** | | |
| Respiratory products | **157,194** | 151,820 |
| Imaging disposable products | **165,748** | 180,817 |
| Orthopaedic and rehabilitation products | **75,982** | 76,403 |
| Other products *(Note)* | **47,378** | 58,307 |
| Total | **446,302** | 467,347 |

*Note:* Other products include infusion regulators, moulds, surgical tools, instruments and plastic disposable products.

| | | |
|---|---|---|
| **By geography** | | |
| The US | **315,800** | 323,298 |
| The PRC | **44,197** | 39,355 |
| Netherlands | **16,611** | 34,370 |
| Australia | **15,796** | 17,922 |
| Japan | **13,717** | 13,904 |
| Others *(Note)* | **40,181** | 38,498 |
| Total | **446,302** | 467,347 |

*Note:* Others mainly include Korea, Hong Kong, Germany and United Kingdom.

## GROSS PROFIT AND GROSS PROFIT MARGIN

Gross profit increased by 3.1% to HK$150.3 million (2016: HK$145.8 million). Gross profit margin improved to 33.7% (2016: 31.2%) attributable to lowered material costs.

## OTHER INCOME

The Group recorded other income of HK$0.7 million (2016: HK$5.9 million). The decrease was mainly due to the absence of write back of trade payables (2016: HK$2.2 million) and exchange gain from foreign currency translations (2016: HK$1.1 million) in 2017. Income from the sales of scrap and government subsidies also decreased by HK$1.4 million and HK$0.5 million respectively in 2017.

## DISTRIBUTION COSTS

Distribution costs increased by 49.0% to HK$23.1 million (2016: HK$15.5 million), this was mainly due to the increase in (i) staff cost owing to the increase in headcount to support the Group's sales and distribution activities and annual salary increment; (ii) promotion expenses for OBM business; and (iii) rental expenses owing to new sales support offices set up in the PRC. For 2017, distribution costs as a percentage of revenue was 5.2% (2016: 3.3%).

## ADMINISTRATIVE EXPENSES

Administrative expenses for 2017 was HK$89.1 million (2016: HK$88.1 million). Excluding the one-off listing-related expenses incurred in 2016, administrative expenses increased by HK$19.0 million. Such increase was mainly due to (i) increase in staff cost of HK$3.7 million owing to the increase in headcount for R&D and engineering; (ii) increase in R&D cost of HK$5.8 million due to the increase in number of projects for new products of the OBM business; (iii) increase in legal and professional fee of HK$2.9 million mainly for a number of investment projects; and (iv) exchange loss of HK$3.9 million as a result of appreciation of RMB during the year. For 2017, administrative expenses as a percentage of revenue was 20.0% (2016: 15.0%, excluding the one-off listing-related expenses incurred in 2016).

## IMPAIRMENT OF GOODWILL

After review of the sales progress of "Hand of Hope" and the fact that the number of units sold is less than the expected level and the delay in the development of new products, the Group recognised an impairment loss of goodwill of HK$6.3 million in relation to its investment in RRCL (an indirect non-wholly owned subsidiary of the Company), resulting a goodwill carrying amount of HK$3.3 million (2016: HK$9.6 million). The impairment loss of goodwill was non-recurring and non-cash in nature which will have no impact on the Group's daily operations and cash flow.

## IMPAIRMENT OF INVESTMENT IN AN ASSOCIATE

Due to prolonged delay with uncertain timeline of the product development for market launch and the severe financial difficulty experienced by Ventific, the Group has made an impairment loss of HK$11.6 million on the investment in Ventific. Ventific is an Australian technology company which owns CPAP-related technologies for treating sleep apnea and other respiratory disorders. The impairment loss of investment in an associate was non-recurring and non-cash in nature which will have no impact on the Group's daily operations and cash flow.

## SHARE OF LOSSES OF ASSOCIATES

Share of losses of associates increased from HK$0.1 million to HK$1.0 million mainly due to share of loss of Retraction Limited ("**Retraction**") of HK$0.9 million.

## INCOME TAX EXPENSE

Income tax expense decreased by 22.6% to HK$8.2 million (2016: HK$10.6 million) which was mainly due to lower provision of the Hong Kong Profits Tax and the PRC Enterprise Income Tax.

## PROFIT ATTRIBUTABLE TO OWNERS OF THE COMPANY

Profit attributable to owners of the Company decreased by 54.8% from HK$29.2 million to HK$13.2 million.

Before deducting the non-recurring items including the listing-related expenses of HK$18.0 million and sterilization costs of HK$7.0 million (of which HK$5.6 million attributable to owners of the Company) incurred in 2016 and the impairment losses of goodwill and investment in an associate of HK$17.9 million (of which HK$15.6 million attributable to owners of the Company) recognised in 2017, the profit attributable to owners of the Company would be HK$28.8 million in 2017, which was 45.5% lower than that of HK$52.8 million in 2016.

## OTHER INTANGIBLE ASSETS

Other intangible assets increased by 80.1% from HK$14.6 million to HK26.3 million, mainly due to patent acquired through the acquisition of GZ Hypnus and acquisition of license right from a third party.

## TRADE RECEIVABLES

Trade receivables increased by 53.5% from HK$75.2 million to HK$115.4 million, this was mainly due to the delay in payment by the major customers. As at 28 February 2018, 80.0% of the trade receivables were subsequently settled.

## PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

Prepayments, deposits and other receivables increased by 43.6% from HK$29.1 million to HK$41.8 million, mainly due to the increase in (i) deposits paid to the customs department of HK$3.1 million; (ii) deposits for mould production of HK$2.1 million; (iii) deposits for equipment purchase of HK$3.6 million; and (iv) VAT paid to the PRC tax bureau of HK$3.8 million.

## INVESTMENTS IN JOINT VENTURES

During the year, the Group recognised investments in joint ventures for a total of HK$23.0 million. Such investments in joint ventures represent investments in Avalon and 100ecare. For details, please refer to paragraphs headed "Significant Investments" and "Material Acquisitions and Disposals" below.

## EMPLOYEE INFORMATION

As at 31 December 2017, the total number of full-time employee of the Group was 1,073 (2016: 921). The remuneration of employees was determined according to their experience, qualifications, result of operations of the Group and market condition. During the year, staff costs including directors' emoluments amounted to HK$113.2 million (2016: HK$96.0 million), representing 25.4% of the Group's revenue (2016: 20.5%). The increase of staff cost was mainly due to the increase in number of staff for production, R&D, quality control and assurance, engineering and sales and marketing departments and annual salary increment.

## CAPITAL EXPENDITURE

The Group's capital expenditures for 2017 primarily comprised expenditures on plant and machinery, injection moulds and construction of the plant amounting to a total of HK$15.4 million (2016: HK$9.0 million).

## LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2017, the Group's bank and cash balances amounted to HK$113.0 million (2016: HK$222.2 million). Most bank and cash balances were denominated in HKD, USD and RMB. The decrease of bank and cash balances was mainly due to the decrease in cash generated from operating activities, the increase in net cash used in investing activities and financing activities.

As at 31 December 2017, the Group did not have any bank loan for the year (2016: HK$0.9 million) and the Group had other loans of HK$9.8 million (2016: HK$3.7 million) as a result of its subsidiaries incurred other loans from the third parties. As at 31 December 2017, no financial instruments were used for hedging purposes. The Group had an insignificant gearing ratio of 0.03 (2016: 0.01), which was calculated based on total debts divided by total equity attributable to owners of the Company.

## CAPITAL STRUCTURE

As at the date of this announcement, the issued share capital of the Company was approximately HK$6.4 million, comprising 637,650,000 shares of the Company (the "**Share(s)**") of nominal value of HK$0.01 per Share.

## SIGNIFICANT INVESTMENTS

During the year and as at 31 December 2017, the Company considers that the significant investments are as follows:-

1. The Group held 20% interest in Ventific, the Group recognised a goodwill of HK$10.3 million and shared its net assets of HK$1.3 million, resulting in a net value of the investment of HK$11.6 million (before impairment). The Group shared a loss of HK$0.01 million in the consolidated statement of profit or loss during the year. As at 31 December 2017, due to prolonged delay in the product development for market launch and the severe financial difficulty experienced by Ventific, the Group has made full impairment loss of the investment in Ventific as the recoverable amount is considered to be negligible.

2. The Group held 20% interest in Retraction. The Group recognised a goodwill of HK$2.8 million and shared its net assets of HK$1.9 million. Therefore, the net value of the investment of HK$4.7 million. The Group shared a loss of HK$0.9 million in the consolidated statement of profit or loss during the year.

3. The Group acquired 10% interest in 廣州柏頤信息科技有限公司 (translated as Guangzhou 100ecare Technology Co. Limited, "**100ecare**") in March 2017. The Group recognised a goodwill of HK$7.3 million and shared its net assets of HK$2.6 million, resulting a net value of the investment of HK$9.9 million. The Group shared a profit of HK$0.3 million in the consolidated statement of profit or loss during the year.

4. The Group acquired 20% interest in Avalon in October 2017. The Group recognised a goodwill of HK$4.5 million and shared its net assets of HK$8.6 million, resulting a net value of the investment of HK$13.1 million. The Group shared a loss of HK$0.2 million in the consolidated statement of profit or loss during the year.

## MATERIAL ACQUISITIONS AND DISPOSALS

On 8 December 2016, 深圳永勝宏基醫療器械有限公司 (translated as Shenzhen Vincent Raya Medical Device Company Limited, "**VMSZ**", an indirect wholly-owned subsidiary of the Company) entered into a subscription agreement with 100ecare and its existing shareholder, pursuant to which VMSZ has conditionally agreed to subscribe for 10% of the enlarged registered share capital of 100ecare at a total consideration of RMB8.0 million. The subscription was completed on 21 March 2017 and 100ecare has become a joint venture of the Company. For details, please refer to the Company's announcement dated 8 December 2016.

On 24 January 2017, Vincent Medical Inovytec Limited ("**VMIL**", an indirect wholly-owned subsidiary of the Company) and Inovytec entered into the Series A Preferred Shares Purchase Agreement (the "**Inovytec Agreement**"), pursuant to which Inovytec shall issue and allot to VMIL an aggregate of 12,091 Series A preferred Shares, representing 15% of the enlarged issued share capital of Inovytec, at a total consideration of US$3.0 million. The purchase of Series A Preferred Shares will be completed by three instalments while Inovytec achieves certain milestones. The first instalment of US$1.8 million has been paid by VMIL on 26 January 2017 upon execution of the Inovytec Agreement and Inovytec has allotted 7,255 Series A Preferred Shares to VMIL according to the Inovytec Agreement, representing 10% with diluted effect of the enlarged issued share capital of Inovytec. The second instalment of US$0.6 million for 2,418 Series A Preferred Shares and the third instalment of US$0.6 million for 2,418 Series A Preferred Shares have been paid on 12 July 2017 and 8 March 2018, respectively when Inovytec achieved relevant sales target pursuant to the Inovytec Agreement, they represent another 2.37% and 2.63% with diluted effect of the enlarged issued share capital of Inovytec. For details, please refer to the Company's announcement dated 24 January 2017.

On 18 September 2017, Vincent Medical Avalon Limited ("**VMA**", an indirect wholly-owned subsidiary of the Company) and Avalon entered into the Share Subscription Agreement (the "**Avalon Agreement**"), pursuant to which VMA has conditionally agreed to subscribe 250 shares, representing 20% of the enlarged issued share capital of Avalon, at a total consideration of US$1.7 million in two tranches: (i) the 1st US$1.0 million has been paid by VMA on 13 October 2017 upon completion of the Avalon Agreement; and (ii) the remaining US$0.7 million will be paid within 5 months after completion of the Avalon Agreement. For additional information, please refer to the paragraph head "Investment in medical device/technology companies to broaden product portfolio" above.

Save for the above, the Group did not have any other material acquisitions or disposals of subsidiaries, associates, joint ventures or other investments during 2017.

## AVAILABLE-FOR-SALE FINANCIAL ASSETS

During the year, the Group recognised available-for-sale financial assets for a total of HK$48.6 million. Such available-for-sale financial assets were mainly consisted of:-

1. an acquisition of 12.37% with diluted effect of the enlarged issued share capital of Inovytec with the cost of investment of US$2.4 million (equivalent to HK$18.7 million). For details, please refer to the paragraphs head "Investment in medical device/technology companies to broaden product portfolio" and "Material Acquisitions and Disposals" above.

2. an acquisition of 13.51% with diluted effect of the enlarged issued share capital of Fresca with the cost of investment of US$2.2 million (equivalent to HK$17.1 million). On 13 April 2017, Vincent Medical Fresca Limited ("**VMF**", an indirect wholly owned subsidiary of the Company) and Fresca entered into the Series C Preferred Stocks Purchase Agreement (the "**Fresca Agreement**"), pursuant to which VMF has conditionally agreed to subscribe 2,859,865 Series C Preferred Stocks for an aggregate 17.5% of the enlarged issued share capital of Fresca at a total consideration of US$3.0 million. The purchase of Series C Preferred Stocks will be completed by three instalments while Fresca achieves certain milestones. The first instalment of US$1.2 million (of which US$0.2 million convertible promissory note has been paid on 21 December 2016 upon signing the relevant term sheet) has been paid by VMF on 13 April 2017 upon execution of the Fresca Agreement and Fresca has allotted 1,143,945 Series C Preferred Stocks to VMF according to the Fresca Agreement, representing 7.92% with diluted effect of the enlarged issued share capital of Fresca. The second instalment of US$1.0 million for 953,289 Series C Preferred Stocks, representing 5.59% with diluted effect of the enlarged issued share capital of Fresca, has been paid by VMF on 9 October 2017 upon Fresca achieved the first milestone pursuant to the Fresca Agreement. The third instalment of US$0.8 million for 762,631 Series C Preferred Stocks, representing 3.99% with diluted effect of the enlarged issued share capital of Fresca will be made upon Fresca achieving the second milestone pursuant to the Fresca Agreement. For more information, please refer to the paragraph head "Investment in medical device/technology companies to broaden product portfolio" above.

   Furthermore, on 1 March 2018, Fresca issued a stock warrant to the Group at nil consideration, pursuant to which the Group is entitled to subscribe for up to 952,381 Series C Preferred Stocks at an aggregate maximum consideration of approximately US$1.0 million.

The Directors consider that the investment of the above available-for-sale financial assets are in line with the Company's development strategy to diversify its product offerings and to utilize its production and product commercialization experience in the PRC and other emerging markets.

## CHARGES ON THE GROUP'S ASSETS

As at 31 December 2017, none of the assets of the Group were pledged.

## FOREIGN EXCHANGE EXPOSURE

While some of the Group's costs and expenses are denominated in RMB, a substantial amount of sales are denominated in USD given the export-oriented nature of the OEM business. Thus, any appreciation of RMB against USD may subject the Group to increased costs and lower profitability. The Directors have assessed the impact of such foreign currency risk and considered that it may materially affect the Group's profitability. The Group currently does not have a foreign currency hedging policy in respect of foreign currency transactions, assets and liabilities. The Group monitors its foreign currency exposure closely and will consider hedging significant foreign currency exposure should the need arise.

## USE OF PROCEEDS FROM THE GLOBAL OFFERING

The Shares were listed (the "**Listing**") on the main board of the Stock Exchange on 13 July 2016 (the "**Listing Date**"). The net proceeds from the global offering were approximately HK$94.6 million (net of underwriting fees and relevant expenses). During the period between the Listing Date and 31 December 2017, the net proceeds from the global offering were utilized as follows:

| | **Amount received from net proceeds** | **Amount actually used up to 31 December 2017** |
|---|---|---|
| | *HK$ million* | *HK$ million* |
| Expansion and upgrading of production facility from 2016 to 2018 | 47.3 | 20.7 |
| Development of pipeline and planned products from 2016 to 2018 | 25.5 | 24.8 |
| Sales and marketing from 2016 to 2018 | 17.1 | 16.8 |
| General corporate purposes and working capital | 4.7 | 4.7 |

## CONTINGENT LIABILITIES

As at 31 December 2017, the Group did not have any contingent liabilities.

## OPERATING LEASE COMMITMENT

As at 31 December 2017, the Group had operating lease commitment of HK$21.1 million (2016: HK$21.3 million).

## CAPITAL COMMITMENT

As at 31 December 2017, the Group had capital commitment of HK$18.1 million (2016: HK$16.0 million, including HK$8.9 million in respect of the capital contribution to 100ecare) in respect of the acquisition of property, plant and equipment, which were contracted for but not provided in the consolidated financial statements.

## EVENTS AFTER THE REPORTING PERIOD

1. With respect to the subscription under the preference share subscription agreement dated 28 November 2016 (the "**Retraction Agreement**") entered into between Vincent Medical Retraction Limited ("**VMR**", an indirect wholly-owned subsidiary of the Company), Retraction and its founder shareholders (collectively the "**Parties**"), VMR has subscribed for the 27 preference shares of Retraction, at a consideration of US$750,000. For the remaining US$750,000, VMR will pay to Retraction upon achievement of certain milestones stipulated in the Retraction Agreement.

   Retraction reported to the Group in January 2018 that only 88.89% of the milestones can be achieved on or before the expiry of 11 calendar months from the signing of the Retraction Agreement. On 24 January 2018, the Parties entered into the supplemental agreement, pursuant to which the Parties have agreed to VMR's payment for the subscription and share allotment in respect of the 2nd tranche preference shares subject to the Retraction Agreement are to be further divided into 2 sub-tranches, namely, T2A (US$666,666 for 40 preference shares) and T2B (US$83,334 for 5 preference shares).

   The T2A, representing 18.3% with diluted effect of the enlarged issued share capital of Retraction, has been paid on 25 January 2018. The T2B, representing 1.7% with diluted effect of the enlarged issued share capital of Retraction, will be paid on 15 July 2018 (subject to the achievement of the remaining 11.11% of the milestones on or before 30 June 2018.)

2. With respect to the subscription under the Inovytec Agreement as disclosed above, VMIL paid the third instalment of US$0.6 million on 8 March 2018 for 2,418 Series A Preferred Shares, representing 2.63% with diluted effect of the enlarged issued share capital of Inovytec.

## DIVIDEND

The Board has proposed the payment of a final dividend of HK1.50 cents (2016: HK1.5 cents) per Share for the year ended 31 December 2017 to the Shareholders whose names appear on the register of members of the Company at the close of business on Tuesday, 5 June 2018. The final dividend will be paid on or around Wednesday, 20 June 2018, subject to the Shareholders' approval at the AGM. No interim dividend was made for the six months ended 30 June 2017 (2016: Nil).

## CLOSURE OF REGISTER OF MEMBERS

For determining the entitlement to attend and vote at the AGM to be held on Thursday, 24 May 2018, the register of members of the Company will be closed from Friday, 18 May 2018 to Thursday, 24 May 2018, both days inclusive, during which period no transfer of the Shares will be registered. In order to be eligible to attend and vote at the AGM, all transfer forms accompanied by the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Tricor Investor Services Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration no later than 4:30 p.m. on Thursday, 17 May 2018.

For determining the entitlement to the proposed final dividend (subject to the approval of the Shareholders at the AGM), the register of members of the Company will be closed from Friday, 1 June 2018 to Tuesday, 5 June 2018, both days inclusive, during which period no transfer of the Shares will be registered. In order to qualify for the proposed final dividend as stated, all transfer forms accompanied by the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Tricor Investor Services Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration no later than 4:30 p.m. on Thursday, 31 May 2018.

## PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities for the year ended 31 December 2017. On 3 January 2018, the Company repurchased 350,000 Shares at HK$227,500 and these Shares were cancelled on 16 January 2018.

## MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuer (the "**Model Code**") as set out in Appendix 10 to the Listing Rules as its own code of conduct for dealing in securities of the Company by the Directors. Having made specific enquiries with all Directors, all Directors confirmed that they have complied with the required standard set out in the Model Code regarding their transactions for the year ended 31 December 2017.

## CORPORATE GOVERNANCE

The Board is committed to maintaining the highest possible standards of corporate governance, and strives to maintain transparent, responsible and value-driven management practices that will enhance and safeguard the interests of the Shareholders. The Board believes that effective and high quality corporate governance is an essential platform for creating value for the Shareholders. The Board is committed to continuously reviewing and improving the Group's corporate governance practices, and maintaining the highest standards of ethical corporate behaviour across the organisation.

The Company has adopted the Corporate Governance Code and Corporate Governance Report (the "**CG Code**") as set out in Appendix 14 to the Listing Rules as its own code of corporate governance since the Listing Date. The corporate governance principles of the Company emphasise a quality Board, sound internal controls and risk management, and transparency and accountability to all Shareholders.

In the opinion of the Directors, the Company has complied with the CG Code for the year ended 31 December 2017.

## SHARE OPTIONS SCHEMES

### Pre-IPO Share Option Scheme adopted on 17 June 2016

A Pre-IPO share option scheme (the "**Pre-IPO Share Option Scheme**") was adopted by the Company on 17 June 2016 (the "**Date of Grant**"). The purpose of the Pre-IPO Share Option Scheme is to recognise and acknowledge the contributions made by certain executives, Directors, employees and/or consultants of the Group to the growth of the Group by granting options to them as rewards and further incentives. The Pre-IPO Share Option Scheme will expire in 16 June 2026 and the remaining life of the Pre-IPO Share Option Scheme as at the date of this announcement is around 8 years.

On the Date of Grant, options to subscribe for an aggregate of 19,684,000 Shares were conditionally granted to a total of 91 grantees under the Pre-IPO Share Option Scheme by the Company. The Shares subject to the options granted under the Pre-IPO Share Option Scheme represent (i) approximately 3.09% of the Company's issued Share capital as of the date of this announcement (excluding all Shares which may be allotted and issued upon the exercise of any options granted under the Pre-IPO Share Option Scheme); and (ii) approximately 2.99% of the Company's issued Share capital as of the date of this announcement, assuming that all options granted under the Pre-IPO Share Option Scheme are exercised. Save for the options which have been granted on the Date of Grant, no further options will be granted under the Pre-IPO Share Option Scheme. The exercise price in respect of each option granted under the Pre-IPO Share Option Scheme is HK$0.80 which is an amount equal to 80% of the final price (i.e. HK$1.00) for each offer share of the Hong Kong public offering and the international placing in connection with the Listing.

For the year ended 31 December 2017, none of the above share options were exercised and a total of 1,448,000 share options were forfeited as results of voluntary resignation, retirement and termination of employment of the relevant option holders. The table below sets out details of the outstanding share options granted to the Directors, a consultant and other grantees under the Pre-IPO Share Option Scheme as at 31 December 2017:

| | | | | Number of Shares | | | |
|---|---|---|---|---|---|---|---|
| **Grantee** | **Date of Grant** | **Vesting schedule** | **Exercise period** | **Number of Shares underlying the share options granted** | **Outstanding as at 1 January 2017** | **Forfeited during the year** | **Outstanding as at 31 December 2017** |
| **Directors** | | | | | | | |
| To Ki Cheung | 17 June 2016 | 25% of options will vest on each of 13 July 2017, 2018, 2019 and 2020 respectively | 25% of options will be exercisable from each of 13 July 2017, 2018, 2019 and 2020 respectively to 16 June 2026 | 526,332 | – | – | 526,332 |
| Koh Ming Fai | 17 June 2016 | 25% of options will vest on each of 13 July 2017, 2018, 2019 and 2020 respectively | 25% of options will be exercisable from each of 13 July 2017, 2018, 2019 and 2020 respectively to 16 June 2026 | 528,834 | – | – | 528,834 |
| Fu Kwok Fu | 17 June 2016 | 25% of options will vest on each of 13 July 2017, 2018, 2019 and 2020 respectively | 25% of options will be exercisable from each of 13 July 2017, 2018, 2019 and 2020 respectively to 16 June 2026 | 528,834 | – | – | 528,834 |
| **In aggregate** | | | | **1,584,000** | **–** | **–** | **1,584,000** |
| **Consultant** | | | | | | | |
| **In aggregate** | 17 June 2016 | 25% of options will vest on each of 13 July 2017, 2018, 2019 and 2020 respectively | 25% of options will be exercisable from each of 13 July 2017, 2018, 2019 and 2020 respectively to 16 June 2026 | **528,000** | **–** | **–** | **528,000** |
| **Senior management and other employees** | | | | | | | |
| **In aggregate** | 17 June 2016 | 25% of options will vest on each of 13 July 2017, 2018, 2019 and 2020 respectively | 25% of options will be exercisable from each of 13 July 2017, 2018, 2019 and 2020 respectively to 16 June 2026 | **17,244,000** | **–** | **1,448,000** | **15,796,000** |
| **Total** | | | | **19,356,000** | **–** | **1,448,000** | **17,908,000** |

A detailed summary of the terms (including the principal terms, exercise price, vesting periods and conditions) of the Pre-IPO Share Option Scheme and list of grantees has been set out in the section headed "Appendix IV. Statutory and General Information — 16. Pre-IPO Share Option Scheme" of the prospectus of the Company dated 30 June 2016 (the "**Prospectus**").

**Share option scheme adopted on 24 June 2016**

A share option scheme (the "**Share Option Scheme**") was adopted by the Company on 24 June 2016. The purpose of the Share Option Scheme is to recognise and acknowledge the contributions of eligible participants of the Share Option Scheme including any executive, Director, employee, advisor, consultant, professional, agent, contractor, customer, provider of goods and/or services or business or joint-venture partner to the Group (the "**Eligible Participants**") by granting options to them as incentives or rewards. The Share Option Scheme will expire on 23 June 2026. The remaining life of the Share Option Scheme as at the date of this announcement is around 8 years. The subscription price per Share shall be determined by the Board and notified to the grantee at the time of offer of the option.

As at the date of this announcement, the total number of Shares which may be issued upon exercise of all options to be granted under the Share Option Scheme shall not in aggregate exceed 63,800,000 Shares, being 10% of the total number of Shares in issue at the time dealings in the Shares first commenced on the Stock Exchange. The total number of Shares issued and to be issued upon the exercise of the options granted or to be granted under the Share Option Scheme and any other schemes of the Company (including exercised, cancelled and outstanding options) to each Eligible Participant in any 12 consecutive months up to and including the date of grant shall not exceed 1% of the Shares in issue as at the date of grant.

For the year ended 31 December 2017, no share option was granted under the Share Option Scheme. Subject to the rules of the Share Option Scheme, an option may be exercised by the Eligible Participants at any time during the applicable option period, which in any event shall not be more than 10 years from the date of grant of option. A detailed summary of the terms of the Share Option Scheme has been set out in the section headed "Appendix IV. Statutory and General Information – 17. Share Option Scheme" of the Prospectus.

## AUDIT COMMITTEE

The Company established the audit committee of the Company (the "**Audit Committee**") which currently consists of three independent non-executive Directors, namely Mr. Au Yu Chiu Steven, Mr. Chan Ling Ming and Mr. Mok Kwok Cheung Rupert, with written terms of reference which deal clearly with its authority and duties.

The Group's audited consolidated annual results for the year ended 31 December 2017 have been reviewed by the Audit Committee.

## SCOPE OF WORK OF RSM HONG KONG

The figures in respect of the Group's consolidated statement of financial position, consolidated statement of profit or loss, consolidated statement of profit or loss and other comprehensive income and the related notes thereto for the year ended 31 December 2017 as set out in this announcement have been agreed by the Group's auditor, RSM Hong Kong, to the amounts set out in the Group's audited consolidated financial statements for the year ended 31 December 2017. The work performed by RSM Hong Kong in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the HKICPA and consequently no assurance has been expressed by RSM Hong Kong on this announcement.

## RETIREMENT OF A NON-EXECUTIVE DIRECTOR

In accordance with the articles of association of the Company, Ms. Liu Pui Ching ("**Ms. Liu**"), a non-executive Director, will retire from office by rotation at the forthcoming AGM. Ms. Liu has decided not to offer herself for re-election as a non-executive Director and will retire from the Board with effect from the conclusion of the AGM, due to her desire to devote more time to her personal affairs and commitments.

Ms. Liu has confirmed that she has no disagreement with the Board, and that she is not aware of any matter relating to her retirement that needs to be brought to the attention of the Shareholders and the Stock Exchange.

## PUBLICATION OF ANNUAL RESULTS ANNOUNCEMENT AND ANNUAL REPORT

This announcement is published on the websites of the Stock Exchange (http://www.hkexnews.hk) and the Company (http://www.vincentmedical.com) respectively.

The annual report of the Company for the year ended 31 December 2017 containing all the relevant information required by the Listing Rules and the relevant laws and regulations will be dispatched to the Shareholders and available on above websites in due course.

## APPRECIATION

On behalf of the Board, I would like to thank all our stakeholders and business partners for their ongoing support, and our Directors, management and employees for their dedication and contributions to our progress.

By Order of the Board
**Vincent Medical Holdings Limited**
**Choi Man Shing**
*Chairman and Executive Director*

Hong Kong, 23 March 2018

*As at the date of this announcement, the Board of the Company comprises Mr. Choi Man Shing, Mr. To Ki Cheung, Mr. Koh Ming Fai and Mr. Fu Kwok Fu as executive Directors, Ms. Liu Pui Ching and Mr. Guo Pengcheng as non-executive Directors, and Mr. Chan Ling Ming, Mr. Mok Kwok Cheung Rupert, Mr. Au Yu Chiu Steven and Prof. Yung Kai Leung as independent non-executive Directors.*