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If you have sold or transferred all your shares in **Vincent Medical Holdings Limited** (永勝醫療控股有限公司), you should at once hand this circular to the purchaser(s) or transferee(s) or to the licensed securities dealer or registered institution in securities or other agent through whom the sale or the transfer was effected for transmission to the purchaser(s) or transferee(s).

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**MAJOR AND CONNECTED TRANSACTION
IN RELATION TO
THE ACQUISITION OF THE REMAINING EQUITY INTEREST IN
VMHK AND VMDG**

Financial adviser to Vincent Medical Holdings Limited

BALLAS
C A P I T A L

Capitalised terms used in this cover will have the same meanings as those defined in the section headed “Definitions” in this circular.

A letter from the Board is set out on pages 4 to 9 of this circular.

The Acquisition has been approved by a written approval from the Controlling Shareholders who together hold more than 50% of the issued share capital of the Company, pursuant to Rule 14.44 of the Listing Rules in lieu of a general meeting of the Company. This circular is being despatched to the Shareholders for information purposes only.

4 December 2020

CONTENTS

	<i>Page</i>
DEFINITIONS	1
LETTER FROM THE BOARD	4
APPENDIX I – FINANCIAL INFORMATION OF THE GROUP	I-1
APPENDIX II – ACCOUNTANTS’ REPORT ON HISTORICAL FINANCIAL INFORMATION OF VMHK GROUP	II-1
APPENDIX III – MANAGEMENT DISCUSSION AND ANALYSIS OF VMHK GROUP	III-1
APPENDIX IV – UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP	IV-1
APPENDIX V – GENERAL INFORMATION	V-1

DEFINITIONS

In this circular, unless the context otherwise requires, the following words and expressions shall have the following meanings:

“Acquisition”	the acquisition of the Sale Shares by the Company from Bayer Medical Care, as contemplated under the Share Transfer Agreement
“associate(s)”	has the meaning ascribed to it in the Listing Rules
“Bayer AG”	a company headquartered in Germany and which shares are listed on the stock exchanges in Frankfurt, Berlin, Dusseldorf, Hamburg, Hannover, Stuttgart and Munich in Germany
“Bayer Group”	Bayer AG and its subsidiaries
“Bayer Medical Care”	Bayer Medical Care Inc., a wholly-owned subsidiary of Bayer AG
“Board”	the board of Directors
“Company”	Vincent Medical Holdings Limited (永勝醫療控股有限公司), an exempted company incorporated in the Cayman Islands with limited liability and the Shares of which are listed on the main board of the Stock Exchange
“Completion”	completion of the Acquisition in accordance with the terms and conditions of the Share Transfer Agreement and had taken place on 30 October 2020
“connected person(s)”	has the meaning ascribed to it under the Listing Rules
“Consideration”	the consideration for the Acquisition
“Controlling Shareholders”	Mr. Choi, Ms. Liu and VRI, who are interested in 386,191,890 Shares (representing approximately 59.49% of the issued Shares of the Company as at the Latest Practicable Date), and are the controlling shareholders who jointly control their respective interests in the Company within the meaning of the Listing Rules. VRI is held as to 57.89% by Mr. Choi and 42.11% by Ms. Liu and interested in 382,189,890 Shares. In addition to his indirect shareholding interests in the Company held through VRI, Mr. Choi is directly interested in 4,002,000 Shares.
“Director(s)”	the director(s) of the Company
“Enlarged Group”	the Group as enlarged by the Acquisition upon Completion
“Group”	the Company and its subsidiaries

DEFINITIONS

“HK\$”	Hong Kong dollar(s), the lawful currency of Hong Kong
“Hong Kong”	Hong Kong Special Administrative Region of the PRC
“Latest Practicable Date”	1 December 2020, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained herein
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“MOU”	the memorandum of understanding dated 25 August 2020 entered into between Bayer Medical Care and the Company regarding the possible sale of the Sale Shares by Bayer Medical Care to the Company
“Mr. Choi”	Mr. Choi Man Shing, the chairman and executive Director of the Company and the spouse of Ms. Liu
“Ms. Liu”	Ms. Liu Pui Ching, the spouse of Mr. Choi
“OBM”	original brand manufacturing
“OEM”	original equipment manufacturing
“PRC”	the People’s Republic of China (for the purpose of this circular, excluding Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan)
“Sale Shares”	1,718,861 shares in VMHK, representing approximately 19.90% of its issued shares, and 3.98% equity interest in VMDG, held by Bayer Medical Care
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended or supplemented from time to time
“Share(s)”	ordinary share(s) of HK\$0.01 each in the share capital of the Company
“Share Transfer Agreement”	the conditional share transfer agreement dated 30 October 2020 entered into between the Company and Bayer Medical Care in relation to the Acquisition
“Shareholder(s)”	holder(s) of the Share(s)
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Target Companies”	VMHK and VMDG

DEFINITIONS

“VMDG”	東莞永勝醫療製品有限公司 (translated as “Vincent Medical (Dongguan) Mfg. Co. Ltd.”), a limited liability company established in the PRC and an indirect non-wholly owned subsidiary of the Company prior to Completion and an indirect wholly-owned subsidiary of the Company upon Completion
“VMHK”	Vincent Medical Manufacturing Co., Limited (永勝醫療製品有限公司), a limited liability company incorporated in Hong Kong and an indirect non-wholly owned subsidiary of the Company prior to Completion and an indirect wholly-owned subsidiary of the Company upon Completion
“VMHK Group”	VMHK and its subsidiaries
“VMMH”	Vincent Medical Manufacturing Holdings Limited (永勝醫療製品控股有限公司), a limited liability company incorporated in the British Virgin Islands and a direct wholly-owned subsidiary of the Company
“VRI”	VINCENT RAYA INTERNATIONAL LIMITED, a company incorporated in the British Virgin Islands and being held as to 57.89% by Mr. Choi and 42.11% by Ms. Liu as at the Latest Practicable Date, and one of the Controlling Shareholders
“%”	per cent

LETTER FROM THE BOARD



**Vincent
Medical**

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)

Executive Directors:

Mr. CHOI Man Shing (*Chairman*)
Mr. TO Ki Cheung (*Chief Executive Officer*)
Mr. KOH Ming Fai
Mr. FU Kwok Fu

Non-executive Director:

Mr. GUO Pengcheng

Independent non-executive Directors:

Mr. MOK Kwok Cheung Rupert
Mr. AU Yu Chiu Steven
Prof. YUNG Kai Leung

Registered Office:

Cricket Square, Hutchins Drive,
P.O. Box 2681, Grand Cayman,
KY1-1111, Cayman Islands

*Headquarters and Principal Place of
Business in Hong Kong:*

Flat B2, 7th Floor, Phase 2,
Hang Fung Industrial Building,
2G Hok Yuen Street,
Hung Hom, Kowloon, Hong Kong

4 December 2020

To the Shareholders

Dear Sir or Madam,

**MAJOR AND CONNECTED TRANSACTION
IN RELATION TO
THE ACQUISITION OF THE REMAINING EQUITY INTEREST IN
VMHK AND VMDG**

INTRODUCTION

Reference is made to the announcement of the Company dated 30 October 2020 in relation to the Acquisition. On 30 October 2020, the Company entered into the Share Transfer Agreement with Bayer Medical Care, pursuant to which, the Company (as the purchaser) conditionally agreed to acquire the Sale Shares from Bayer Medical Care (as the seller) at the Consideration of HK\$67,293,604.

The purpose of this circular is to provide you with, among other things, (i) major terms of the Share Transfer Agreement; (ii) the financial and general information of the Group; (iii) the accountants' report of VMHK Group; and (iv) the unaudited pro forma financial information of the Enlarged Group.

LETTER FROM THE BOARD

SHARE TRANSFER AGREEMENT

The principal terms of the Share Transfer Agreement are as follow:

Date

30 October 2020 (after trading hours)

Parties

Purchaser: the Company; and

Vendor: Bayer Medical Care, a connected person of the Company at the subsidiary level immediately before Completion.

Subject Matter

The Company conditionally agreed to purchase and accept, and Bayer Medical Care conditionally agreed to sell, assign and transfer to the Company, the Sale Shares.

Immediately before the Completion, (i) VMHK is indirectly held by the Company and directly held by Bayer Medical Care as to approximately 80.10% and 19.90%, respectively, and (ii) VMDG is held by VMHK and Bayer Medical Care as to 96.02% and 3.98%, respectively.

The 1,718,861 shares in VMHK, representing approximately 19.90% of its issued shares, was subscribed for by Bayer Medical Care (then known as Medrad, Inc.) at the cost of HK\$2,895,450 in March 2004, while the equity interest of 3.98% in VMDG represented the capital contributed by Bayer Medical Care (then known as Medrad, Inc.) at the cost of HK\$597,000 in October 2003 when VMDG was established.

Consideration

The Consideration for the Acquisition paid by the Company to Bayer Medical Care is HK\$67,293,604, payable in cash upon the signing of the Share Transfer Agreement.

The Group financed the Consideration by the internal financial resources and bank borrowings of the Group.

Basis of determination

The Consideration was determined after arm's length negotiations between the Company and Bayer Medical Care with reference to (i) the historical financial performance and business prospects of VMHK and VMDG; and (ii) the factors as set out in the section headed "Reasons for and Benefits of the Acquisition". The Consideration implies a historic price-to-earnings ratio of 10.9 times based on the audited net profit of VMHK for the year ended 31 December 2019.

LETTER FROM THE BOARD

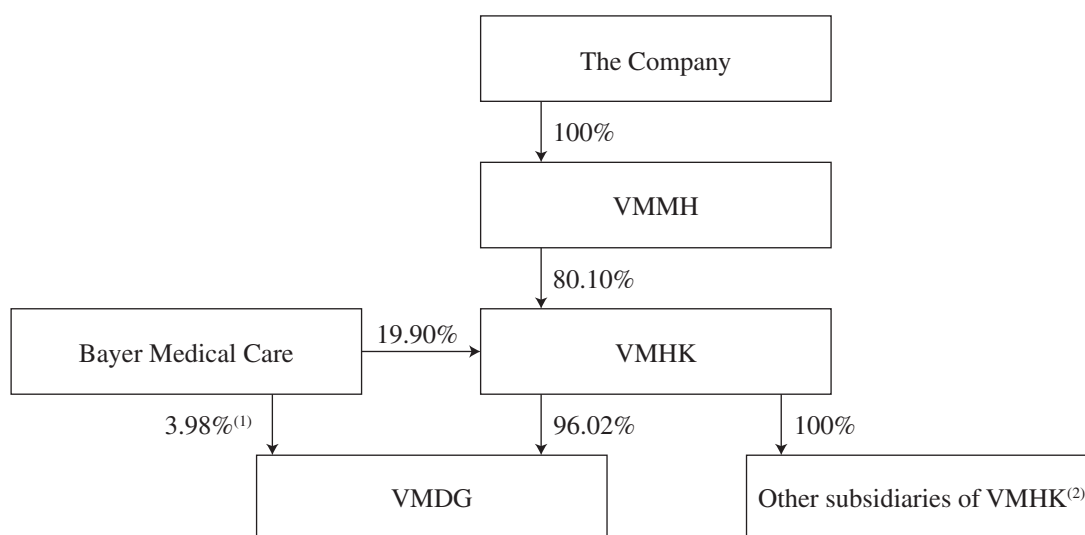
Completion

Completion has taken place upon the payment of the Consideration on 30 October 2020. Accordingly, (i) VMHK and VMDG have become indirect wholly-owned subsidiaries of the Company; and (ii) Bayer Medical Care is no longer a connected person of the Company.

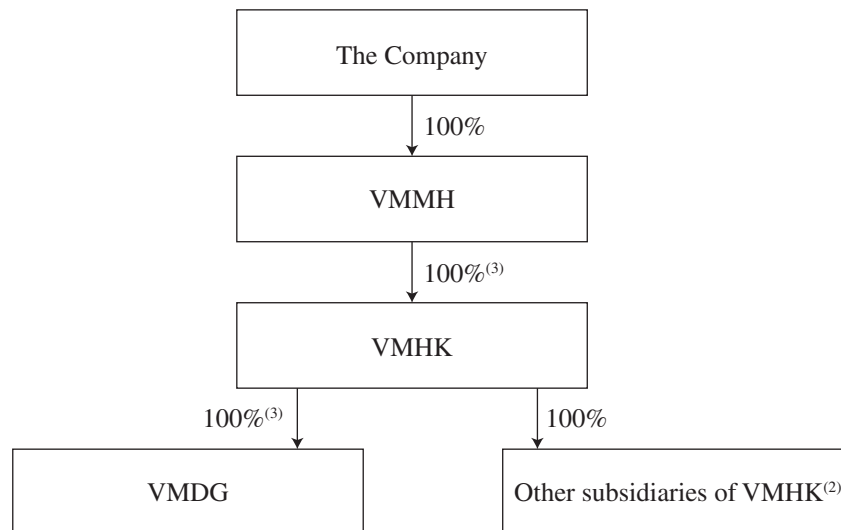
SHAREHOLDING STRUCTURES BEFORE AND AFTER THE ACQUISITION

The following are the shareholding structures of the Target Companies (i) immediately before Completion; and (ii) immediately after Completion:

(i) Immediately before Completion



(ii) Immediately after Completion



LETTER FROM THE BOARD

Notes:

1. According to the shareholders' agreement entered into between Bayer Medical Care (then known as Medrad, Inc.) and VMHK which took effect on 1 March 2004, Bayer Medical Care (then known as Medrad, Inc.) had surrendered its right to its share of the net assets and future dividend of VMDG. Therefore, VMDG's results have been 100% consolidated into the financial statements of VMHK Group.
2. Other subsidiaries of VMHK are (i) Vincent Medical Care Company Limited, which is principally engaged in the trading of medical devices and investment holding; (ii) Vincent Medical Technology Company Limited, which is an inactive company; and (iii) Vincent Medical R&D Limited, which is an inactive company. All of which are incorporated in Hong Kong.
3. The instrument of transfer and bought and sold notes of the 1,718,861 shares in VMHK, representing approximately 19.90% of its issued shares, and 3.98% equity interest in VMDG were executed by VMMH and VMHK, as the nominees of the Company, respectively. Accordingly, the shares in VMHK and equity interest in VMDG were transferred to VMMH and VMHK, respectively.

INFORMATION OF THE TARGET COMPANIES

VMHK is a company incorporated in Hong Kong and is principally engaged in the trading of medical devices and investment holding.

VMDG is a company established in the PRC and is principally engaged in the manufacturing of medical devices.

According to the shareholders' agreement entered into between Bayer Medical Care (then known as Medrad, Inc.) and VMHK which took effect on 1 March 2004, Bayer Medical Care (then known as Medrad, Inc.) had surrendered its right to its share of the net assets and future dividend of VMDG. Therefore, VMDG's results have been 100% consolidated into the financial statements of VMHK Group. The table below sets out certain audited financial information of VMHK Group for the years ended 31 December 2018 and 2019 prepared in accordance with the Hong Kong Financial Reporting Standards:

	Year ended 31 December 2018 (audited) <i>HK\$'000</i>	Year ended 31 December 2019 (audited) <i>HK\$'000</i>
Revenue	387,687	389,153
Net profit before taxation	43,743	33,415
Net profit after taxation	39,716	31,084

The audited consolidated net asset value of VMHK Group as at 30 June 2020 is approximately HK\$391.2 million. On 22 October 2020, VMHK declared an interim dividend of approximately HK\$80.4 million, which was payable on or before 30 October 2020 to the shareholders whose names appear on the register of members of VMHK as at 22 October 2020.

LETTER FROM THE BOARD

REASONS FOR AND BENEFITS OF THE ACQUISITION

The Group is principally engaging in the research and development, manufacture and sales of medical devices focusing on respiratory support, imaging contrast media power injector disposables and orthopaedic and rehabilitation products.

Bayer Medical Care develops, manufactures and markets equipment and products used in angiography, computed tomography and magnetic resonance imaging. Bayer Medical Care is a wholly-owned subsidiary of Bayer AG, a German multinational pharmaceutical and life sciences company.

The Acquisition will allow the Group to gain full control of its OEM business segment to diversify its service portfolio and customer base and to enhance efficiency of operations through elimination of resources expended on shareholders' communications. It will also reduce the scale of connected transactions of the Company as the Bayer Group is one of the major customers of the Group. Furthermore, the Consideration is considered reasonable and the Acquisition is considered to be accretive to the value of the Group.

The Board has assessed the impact of the Acquisition on the existing business with the Bayer Group and believes that the Group will continue to maintain a strong and committed long-term business relationship with the Bayer Group going forward. Under the current supply agreement with the Bayer Group, the Group has recently been awarded a new OEM project in the development and production of certain new computed tomography injector consumables for the Bayer Group.

FINANCIAL EFFECTS OF THE ACQUISITION

Completion has taken place upon the payment of the Consideration on 30 October 2020. Accordingly, VMHK and VMDG have become indirect wholly-owned subsidiaries of the Company. Prior to Completion, the financial results of VMHK and VMDG were already consolidated into that of the Group. Details of the unaudited pro forma financial information of the Enlarged Group are set out in "Appendix IV – Unaudited Pro Forma Financial Information of the Enlarged Group" to this circular.

Assets and liabilities

Based on the unaudited pro forma financial information of the Enlarged Group set out in Appendix IV to this circular and the bases and assumptions taken into account in preparing such unaudited pro forma financial information, the unaudited consolidated total assets of the Enlarged Group would have decreased from approximately HK\$849.5 million to approximately HK\$782.2 million on a pro forma basis, whereas the total liabilities of the Group would have increased from approximately HK\$341.8 million to approximately HK\$342.5 million on a pro forma basis. Accordingly, the unaudited pro forma consolidated net assets of the Enlarged Group as at 30 June 2020 would be approximately HK\$439.6 million.

Earnings

After Completion, the Group's earnings attributable to the owners of the Company are expected to increase as the Group's shareholding in VMHK increased from approximately 80.10% to 100%. For details of VMHK Group, please refer to "Appendix II – Accountants' Report on Historical Financial Information of VMHK Group" and "Appendix III – Management Discussion and Analysis of VMHK Group" to this circular.

LETTER FROM THE BOARD

LISTING RULES IMPLICATIONS

As one or more of the applicable percentage ratios under Rule 14.07 of the Listing Rules in respect of the Acquisition is more than 25% and less than 100%, the Acquisition constitutes a major transaction of the Group under Rule 14.06 of the Listing Rules and is subject to the reporting, announcement, circular and Shareholders' approval requirements under Chapter 14 of the Listing Rules.

Immediately prior to the Completion, Bayer Medical Care held approximately 19.90% and 3.98% of VMHK and VMDG, respectively, and therefore, it is a connected person of the Company at the subsidiary level, and the Acquisition constitutes a connected transaction of the Company.

As (i) the Acquisition is a transaction between the Group and the connected persons at the subsidiary level; (ii) the Board has approved the Acquisition; and (iii) the independent non-executive Directors have confirmed that the terms of the Share Transfer Agreement and the Acquisition was fair and reasonable and that the Share Transfer Agreement was on normal commercial terms and in the interests of the Company and the Shareholders as a whole, the Acquisition is subject to the reporting and announcement, but exempt from the circular, independent financial advice and shareholders' approval requirements under Rule 14A.101 of the Listing Rules.

Furthermore, to the best of the Directors' knowledge, information and belief, (i) as no Shareholder has a material interest in the Acquisition, no Shareholder is required to abstain from voting if the Company shall be required to convene a general meeting for approving the Acquisition; and (ii) the accountants' report of VMHK Group contained in this circular will not contain modified opinion. The Company has obtained a written approval from the Controlling Shareholders, which are, in aggregate, interested in 386,191,890 Shares, representing approximately 59.49% of the issued Shares as at the Latest Practicable Date. Accordingly, the written shareholders' approval has been accepted in lieu of holding a general meeting for the approval of the Acquisition pursuant to Rule 14.44 of the Listing Rules. Therefore, no general meeting of the Company will be convened to approve the Acquisition.

RECOMMENDATION

The Directors (including the independent non-executive Directors) consider that the terms of the Share Transfer Agreement and the Acquisition is fair and reasonable and that the Share Transfer Agreement is on normal commercial terms and in the interests of the Company and the Shareholders as a whole.

ADDITIONAL INFORMATION

The Board confirms that no Director has any material interest in the Acquisition, and hence no Director abstained from voting on the board resolution for approving the Acquisition.

Your attention is also drawn to the additional information contained in the appendices to this circular.

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

FINANCIAL INFORMATION OF THE GROUP

Details of the financial information of the Group for the three years ended 31 December 2019 are disclosed in the annual reports of the Company for each of the three years ended 31 December 2019; together with the relevant notes thereto are disclosed in the following documents which have been published and are available on the website of the Stock exchange (<http://www.hkexnews.hk>) and the website of the Company (<http://www.vincentmedical.com>):

The audited consolidated financial statements of the Group for the year ended 31 December 2017 are set out on pages 65 to 131 in the annual report for the year ended 31 December 2017 of the Company, which was published on (available on: <https://www1.hkexnews.hk/listedco/listconews/sehk/2018/0419/ltn20180419233.pdf>).

The audited consolidated financial statements of the Group for the year ended 31 December 2018 are set out on pages 74 to 155 in the annual report for the year ended 31 December 2018 of the Company, which was published on (available on: <https://www1.hkexnews.hk/listedco/listconews/sehk/2019/0417/ltn20190417259.pdf>).

The audited consolidated financial statements of the Group for the year ended 31 December 2019 are set out on pages 79 to 163 in the annual report for the year ended 31 December 2019 of the Company, which was published on (available on: <https://www1.hkexnews.hk/listedco/listconews/sehk/2020/0416/2020041600433.pdf>).

INDEBTEDNESS OF THE GROUP

As at 31 October 2020, being the latest practicable date for the purpose of the statement of indebtedness prior to the printing of this circular, the Group had outstanding bank loans, other loan and lease liabilities of approximately HK\$116,168,000, comprising:

- (i) Secured bank loans of approximately HK\$21,862,000 by corporate guarantee provided by the Company;
- (ii) Secured bank loans of approximately HK\$38,823,000 by corporate guarantees provided by the Company and two Hong Kong subsidiaries of the Company;
- (iii) Secured bank loans of approximately HK\$17,297,000 by corporate guarantees provided by the Company and two PRC subsidiaries of the Company;
- (iv) Secured bank loan of approximately HK\$4,063,000 by a key management personnel of a PRC subsidiary of the Company;
- (v) Unsecured bank loans of approximately HK\$9,156,000;
- (vi) Unsecured other loan of approximately HK\$7,380,000; and
- (vii) Lease liabilities of approximately HK\$17,587,000.

Save as aforesaid and apart from intra-group liabilities, and the normal trade and other payables incurred in the ordinary course of business, the Group and the Target Companies did not have any debt securities issued and outstanding or agreed to be issued, outstanding bank borrowings, bank overdrafts, liabilities under acceptance, acceptance credits, mortgages, charges, other indebtedness in the nature of borrowing, finance lease or hire purchase commitments, guarantees or material contingent liabilities as at 31 October 2020.

WORKING CAPITAL OF THE GROUP

The Directors are of the opinion that, after taking into account the effects of the Acquisition, the internal financial resources and present banking facilities available to the Group, the Group will have sufficient working capital in the absence of unforeseen circumstances for its present requirements and for at least the next 12 months from the date of this circular.

FINANCIAL AND TRADING PROSPECT OF THE GROUP

The Group is principally engaging in the research and development, manufacture and sales of medical devices focusing on respiratory support, imaging contrast media power injector disposables and orthopaedic and rehabilitation products.

The pandemic will continue in the second half of 2020 and has already changed the global healthcare system. While it is uncertain when COVID-19 will be under control, what is certain is that global demand for COVID-19 related medical devices will continue to increase and the Group continues in supplying these respiratory devices. With over 20 years in respiratory and humidification, a key supplier to the major global respiratory companies and an increasing distribution network into 70 countries, the Group expects continuous growth for the second half of 2020. The Group will continue to drive market expansion while building an even stronger intellectual property and patent portfolio.

In addition, the pandemic has put the spotlight on the use of high flow oxygen therapy in the treatment of respiratory failure, yet the full potential of high flow oxygen therapy has yet to be realised as the therapy can be used in numerous respiratory treatments beyond COVID-19. To further capture such growing market, the Group will continue to invest in product innovation and aims to be a significant player with strategic collaboration with global medical technology companies and distributors.

On cost and efficiency, the Group will continue to improve its production and operation efficiency in order to support sustainable business growth and further improvement in profitability. It will also strive to streamline its corporate structure and exercise caution over the management of working capital.

MATERIAL ADVERSE CHANGE

The Directors confirm that there had been no material adverse change in the financial or trading position of the Group since 31 December 2019, being the date to which the latest published audited consolidated financial statements of the Group were made up, up to and including the Latest Practicable Date.

The following is the text of a report set out on pages II-1 to II-85, received from the Company's reporting accountants, RSM Hong Kong, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this circular.



ACCOUNTANTS' REPORT ON HISTORICAL FINANCIAL INFORMATION ON VMHK GROUP TO THE DIRECTORS OF VINCENT MEDICAL HOLDINGS LIMITED

Introduction

We report on the historical financial information of Vincent Medical Manufacturing Co., Limited (“VMHK”) and its subsidiaries (hereinafter collectively referred to as “VMHK Group”) set out on pages II-4 to II-85, which comprises the consolidated statements of financial position of VMHK Group as at 31 December 2017, 2018 and 2019 and 30 June 2020, and the consolidated statements of profit or loss, consolidated statements of profit or loss and other comprehensive income, consolidated statements of changes in equity and the consolidated statements of cash flows for each of the three years ended 31 December 2017, 2018 and 2019 and the six months ended 30 June 2020 (the “**Relevant Period**”) and a summary of significant accounting policies and other explanatory information (together, the “**Historical Financial Information**”). The Historical Financial Information set out on pages II-4 to II-85 forms an integral part of this report, which has been prepared for inclusion in the investment circular of Vincent Medical Holdings Limited (the “**Company**”) dated 4 December 2020 (the “**Investment Circular**”) in connection with the proposed acquisition of the certain equity interest in VMHK and its subsidiary, Vincent Medical (Dongguan) Mfg. Co. Ltd. held by a non-controlling shareholder.

Directors' responsibility for the Historical Financial Information

The directors of the Company are responsible for the preparation of Historical Financial Information that gives a true and fair view in accordance with the basis of preparation and presentation set out in Note 2 to the Historical Financial Information, and for such internal control as the directors determine is necessary to enable the preparation of Historical Financial Information that is free from material misstatement, whether due to fraud or error.

Reporting accountants' responsibility

Our responsibility is to express an opinion on the Historical Financial Information and to report our opinion to you. We conducted our work in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 200 Accountants' Reports on Historical Financial Information in Investment Circulars issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"). This standard requires that we comply with ethical standards and plan and perform our work to obtain reasonable assurance about whether the Historical Financial Information is free from material misstatement.

Our work involved performing procedures to obtain evidence about the amounts and disclosures in the Historical Financial Information. The procedures selected depend on the reporting accountants' judgement, including the assessment of risks of material misstatement of the Historical Financial Information, whether due to fraud or error. In making those risk assessments, the reporting accountants consider internal control relevant to the entity's preparation of Historical Financial Information that give a true and fair view in accordance with the basis of preparation and presentation set out in Note 2 to the Historical Financial Information in order to design procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Our work also included evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors of the Company, as well as evaluating the overall presentation of the Historical Financial Information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion, the Historical Financial Information gives, for the purposes of the accountants' report, a true and fair view of VMHK Group's financial position as at 31 December 2017, 2018 and 2019 and 30 June 2020 and of VMHK Group's financial performance and cash flows for the Relevant Period in accordance with the basis of preparation and presentation set out in Note 2 to the Historical Financial Information.

Review of stub period comparative financial information

We have reviewed the stub period comparative financial information of VMHK Group which comprises consolidated statement of profit or loss, consolidated statement of profit or loss and other comprehensive income and consolidated statement of cash flows for the six months ended 30 June 2019 and other explanatory information (the “**Stub Period Comparative Financial Information**”). The directors of the Company are responsible for the preparation and presentation of the Stub Period Comparative Financial Information in accordance with the basis of preparation and presentation set out in Note 2 to the Historical Financial Information. Our responsibility is to express a conclusion on the Stub Period Comparative Financial Information based on our review. We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410 Review of Interim Financial Information Performed by the Independent Auditor of the Entity issued by the HKICPA. A review consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion. Based on our review, nothing has come to our attention that causes us to believe that the Stub Period Comparative Financial Information, for the purposes of the accountants' report, is not prepared, in all material respects, in accordance with the basis of preparation and presentation set out in Note 2 to the Historical Financial Information.

Report on matters under the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited**Adjustments**

In preparing the Historical Financial Information no adjustments to the Historical Financial Statements as defined on page II-4 have been made.

RSM Hong Kong*Certified Public Accountants*

Hong Kong, 4 December 2020

HISTORICAL FINANCIAL INFORMATION OF VMHK GROUP**Preparation of Historical Financial Information**

Set out below is the Historical Financial Information which forms an integral part of this accountants' report.

The Historical Financial Information in this report was prepared based on the previously issued financial statements of VMHK Group for the years ended 31 December 2017, 2018 and 2019 (the "**Previously Issued Financial Statements**"), and management accounts of VMHK Group for the six months ended 30 June 2020. The Previously Issued Financial Statements were audited by RSM Hong Kong in accordance with Hong Kong Standards on Auditing issued by the HKICPA (the "**Historical Financial Statements**").

The Historical Financial Information is presented in Hong Kong dollars and all values are rounded to the nearest thousand (HK\$'000) except when otherwise indicated.

CONSOLIDATED STATEMENTS OF PROFIT OR LOSS

	Note	Year ended 31 December			Six months ended 30 June	
		2017 HK\$'000	2018 HK\$'000	2019 HK\$'000	2019 HK\$'000 (unaudited)	2020 HK\$'000
Revenue	7	360,833	387,687	389,153	190,312	379,534
Cost of sales		<u>(254,288)</u>	<u>(277,283)</u>	<u>(284,438)</u>	<u>(134,415)</u>	<u>(251,368)</u>
Gross Profit		106,545	110,404	104,715	55,897	128,166
Other income, other gains and losses	8	(14,493)	3,514	953	(696)	4,229
Selling and distribution expenses		(13,444)	(13,354)	(11,815)	(5,916)	(6,789)
Administrative expenses		<u>(53,422)</u>	<u>(56,681)</u>	<u>(58,825)</u>	<u>(30,427)</u>	<u>(39,266)</u>
Profit from operations		25,186	43,883	35,028	18,858	86,340
Finance costs	10	(2)	(140)	(1,613)	(788)	(932)
Share of loss of an associate		<u>(25)</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>
Profit before tax		25,159	43,743	33,415	18,070	85,408
Income tax expense	11	<u>(3,565)</u>	<u>(4,027)</u>	<u>(2,331)</u>	<u>(1,878)</u>	<u>(12,698)</u>
Profit for the year/period	12	<u>21,594</u>	<u>39,716</u>	<u>31,084</u>	<u>16,192</u>	<u>72,710</u>
Attributable to:						
Owners of VMHK		21,614	39,720	31,084	16,192	72,710
Non-controlling interests		<u>(20)</u>	<u>(4)</u>	<u>–</u>	<u>–</u>	<u>–</u>
		<u>21,594</u>	<u>39,716</u>	<u>31,084</u>	<u>16,192</u>	<u>72,710</u>
Earnings per share	16					
Basic		<u>HK\$2.50</u>	<u>HK\$4.60</u>	<u>HK\$3.60</u>	<u>HK\$1.87</u>	<u>HK\$8.42</u>
Diluted		<u>n/a</u>	<u>n/a</u>	<u>n/a</u>	<u>n/a</u>	<u>n/a</u>

CONSOLIDATED STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE
INCOME

	Year ended 31 December			Six months ended 30 June	
	2017 HK\$'000	2018 HK\$'000	2019 HK\$'000	2019 HK\$'000 (unaudited)	2020 HK\$'000
Profit for the year/period	<u>21,594</u>	<u>39,716</u>	<u>31,084</u>	<u>16,192</u>	<u>72,710</u>
Other comprehensive income:					
<i>Items that may be reclassified to profit or loss:</i>					
Exchange differences on translating foreign operations	8,443	(6,709)	(3,633)	(801)	(3,572)
Exchange differences reclassified to profit or loss on deemed disposal of an associate	<u>—</u>	<u>1,515</u>	<u>—</u>	<u>—</u>	<u>—</u>
Other comprehensive income for the year/period, net of tax	<u>8,443</u>	<u>(5,194)</u>	<u>(3,633)</u>	<u>(801)</u>	<u>(3,572)</u>
Total comprehensive income for the year/period	<u><u>30,037</u></u>	<u><u>34,522</u></u>	<u><u>27,451</u></u>	<u><u>15,391</u></u>	<u><u>69,138</u></u>
Attributable to:					
Owners of VMHK	30,137	34,526	27,451	15,391	69,138
Non-controlling interests	<u>(100)</u>	<u>(4)</u>	<u>—</u>	<u>—</u>	<u>—</u>
	<u><u>30,037</u></u>	<u><u>34,522</u></u>	<u><u>27,451</u></u>	<u><u>15,391</u></u>	<u><u>69,138</u></u>

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	Note	As at 31 December			As at 30 June
		2017 HK\$'000	2018 HK\$'000	2019 HK\$'000	2020 HK\$'000
ASSETS					
Non-current assets					
Property, plant and equipment	17	41,322	41,231	54,529	66,834
Right-of-use assets	18	–	–	13,734	11,819
Investment in an associate	19	–	–	–	–
Equity investment at fair value through other comprehensive income (“FVTOCI”)	19	–	–	–	–
Total non-current assets		<u>41,322</u>	<u>41,231</u>	<u>68,263</u>	<u>78,653</u>
Current assets					
Inventories	21	76,713	73,762	90,898	173,990
Trade receivables	22	92,676	84,803	81,616	116,630
Contract assets	7	–	17,177	12,991	9,397
Prepayments, deposits and other receivables	23	32,644	38,863	33,568	78,531
Due from intermediate parent	24	2,279	23,594	41,746	41,706
Due from immediate parent	24	123	123	123	123
Due from fellow subsidiaries	24	31,230	32,140	71,648	89,728
Current tax assets		3,272	–	–	–
Bank and cash balances	25	<u>39,717</u>	<u>50,010</u>	<u>28,909</u>	<u>50,534</u>
Total current assets		<u>278,654</u>	<u>320,472</u>	<u>361,499</u>	<u>560,639</u>
TOTAL ASSETS		<u><u>319,976</u></u>	<u><u>361,703</u></u>	<u><u>429,762</u></u>	<u><u>639,292</u></u>
EQUITY AND LIABILITIES					
Share capital	31	14,889	14,889	14,889	14,889
Reserves	32(a)	<u>243,356</u>	<u>279,151</u>	<u>306,602</u>	<u>375,740</u>
Equity attributable to owners of VMHK		258,245	294,040	321,491	390,629
Non-controlling interests		<u>(3,094)</u>	<u>597</u>	<u>597</u>	<u>597</u>
Total equity		<u>255,151</u>	<u>294,637</u>	<u>322,088</u>	<u>391,226</u>

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION (CONTINUED)

	Note	As at 31 December			As at
		2017	2018	2019	30 June
		HK\$'000	HK\$'000	HK\$'000	2020
					HK\$'000
Non-current liabilities					
Lease liabilities	29	–	–	7,307	4,224
Deferred tax liabilities	30	–	1,034	1,957	2,260
Total non-current liabilities		–	1,034	9,264	6,484
Current liabilities					
Trade payables	26	33,226	29,353	34,661	135,696
Other payables and accruals	27	26,874	17,123	22,730	46,531
Due to fellow subsidiaries	24	346	4,337	3,702	10,506
Bank loans	28	–	9,255	23,454	26,832
Lease liabilities	29	–	–	6,857	8,087
Current tax liabilities		4,379	5,964	7,006	13,930
Total current liabilities		64,825	66,032	98,410	241,582
TOTAL EQUITY AND LIABILITIES		<u>319,976</u>	<u>361,703</u>	<u>429,762</u>	<u>639,292</u>
Net current assets		<u>213,829</u>	<u>254,440</u>	<u>263,089</u>	<u>319,057</u>
Total assets less current liabilities		<u>255,151</u>	<u>295,671</u>	<u>331,352</u>	<u>397,710</u>

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Attributable to owners of VMHK					Total equity HK\$'000
	Share capital HK\$'000	Foreign currency translation reserve HK\$'000	Retained profits HK\$'000	Total HK\$'000	Non- controlling interests HK\$'000	
At 1 January 2017	14,889	(8,934)	236,153	242,108	(2,994)	239,114
Dividend paid (Note 15)	-	-	(14,000)	(14,000)	-	(14,000)
Total comprehensive income for the year	-	8,523	21,614	30,137	(100)	30,037
Changes in equity for the year	-	8,523	7,614	16,137	(100)	16,037
At 31 December 2017 and 1 January 2018	14,889	(411)	243,767	258,245	(3,094)	255,151
Adjustments on initial application of HKFRS 15 (Note 3)	-	-	4,964	4,964	-	4,964
Restated balance at 1 January 2018	14,889	(411)	248,731	263,209	(3,094)	260,115
Total comprehensive income for the year	-	(5,194)	39,720	34,526	(4)	34,522
Purchases of non-controlling interests (Note 20(b))	-	72	(3,767)	(3,695)	3,695	-
Changes in equity for the year	-	(5,122)	35,953	30,831	3,691	34,522
At 31 December 2018 and 1 January 2019	14,889	(5,533)	284,684	294,040	597	294,637
Total comprehensive income and changes in equity for the year	-	(3,633)	31,084	27,451	-	27,451
At 31 December 2019 and 1 January 2020	14,889	(9,166)	315,768	321,491	597	322,088
Total comprehensive income and changes in equity for the period	-	(3,572)	72,710	69,138	-	69,138
At 30 June 2020	<u>14,889</u>	<u>(12,738)</u>	<u>388,478</u>	<u>390,629</u>	<u>597</u>	<u>391,226</u>
At 1 January 2019	14,889	(5,533)	284,684	294,040	597	294,637
Total comprehensive income and changes in equity for the period (unaudited)	-	(801)	16,192	15,391	-	15,391
At 30 June 2019 (unaudited)	<u>14,889</u>	<u>(6,334)</u>	<u>300,876</u>	<u>309,431</u>	<u>597</u>	<u>310,028</u>

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year ended 31 December			Six months ended 30 June	
	2017 HK\$'000	2018 HK\$'000	2019 HK\$'000	2019 HK\$'000 (unaudited)	2020 HK\$'000
CASH FLOWS FROM OPERATING ACTIVITIES					
Profit before tax	25,159	43,743	33,415	18,070	85,408
Adjustments for:					
Allowance/(reversal of allowance) for inventories	–	1,851	(493)	–	5,840
Depreciation of property, plant and equipment	9,317	10,221	10,777	5,563	5,336
Depreciation of right-of-use assets	–	–	6,967	3,543	3,965
Finance costs	2	140	1,613	788	932
Interest income	(31)	(133)	(313)	(24)	(15)
Impairment of investment in an associate	11,629	–	–	–	–
Impairment of trade receivables	–	163	52	–	–
Share of loss of an associate	25	–	–	–	–
Write back of other payables	–	(3,859)	–	–	–
Write off of inventories	–	–	2,300	–	–
Write off of property, plant and equipment	543	35	36	22	120
Write off of trade receivables	–	72	–	–	–
Operating profit before working capital changes	46,644	52,233	54,354	27,962	101,586
Increase in inventories	(2,357)	(11,296)	(18,993)	(18,067)	(88,852)
(Increase)/decrease in trade receivables	(26,625)	7,638	3,135	6,389	(35,014)
Decrease in contract assets	–	645	4,186	1,745	3,594
(Increase)/decrease in prepayments, deposits and other receivables	(10,040)	(6,219)	5,565	(1,689)	(44,963)
Decrease/(increase) in amount due from intermediate parent	614	(21,315)	(18,152)	(12,903)	40
Increase in amounts due from fellow subsidiaries	(3,859)	(1,860)	(36,846)	(5,130)	(16,928)
Increase/(decrease) in trade payables	10,208	(3,873)	5,308	5,080	101,035
(Decrease)/increase in other payables and accruals	(12,918)	(5,892)	5,607	3,726	23,801
(Decrease)/increase in amounts due to fellow subsidiaries	(6,454)	1,588	(847)	(1,169)	758
Cash (used in)/generated from operations	(4,787)	11,649	3,317	5,944	45,057
Net income tax (paid)/refund	(7,861)	1,516	(227)	(232)	(5,303)
Interest paid	(2)	(140)	(471)	(155)	(502)
Interest on lease liabilities	–	–	(1,142)	(633)	(430)
Net cash (used in)/generated from operating activities	(12,650)	13,025	1,477	4,924	38,822

CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)

	Year ended 31 December			Six months ended 30 June	
	2017 HK\$'000	2018 HK\$'000	2019 HK\$'000	2019 HK\$'000 (unaudited)	2020 HK\$'000
CASH FLOWS FROM INVESTING ACTIVITIES					
Interest received	31	133	43	24	15
Purchases of property, plant and equipment	(12,007)	(12,100)	(25,229)	(12,634)	(18,897)
(Decrease)/increase in amounts due from fellow subsidiaries	(10,558)	950	(2,662)	3,928	(1,152)
Net cash used in investing activities	(22,534)	(11,017)	(27,848)	(8,682)	(20,034)
CASH FLOWS FROM FINANCING ACTIVITIES					
Bank loans raised	–	10,000	16,163	–	5,000
Repayment of bank loans	(892)	(745)	(1,964)	(907)	(1,406)
Dividend paid	(14,000)	–	–	–	–
Principal elements of lease payment	–	–	(6,530)	(3,268)	(3,895)
(Decrease)/increase in amounts due to fellow subsidiaries	(828)	2,403	212	550	6,046
Net cash (used in)/generated from financing activities	(15,720)	11,658	7,881	(3,625)	5,745
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS	(50,904)	13,666	(18,490)	(7,383)	24,533
Effect of foreign exchange rate changes	5,432	(3,373)	(2,611)	(547)	(2,908)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR/PERIOD	85,189	39,717	50,010	50,010	28,909
CASH AND CASH EQUIVALENTS AT END OF YEAR/PERIOD	<u>39,717</u>	<u>50,010</u>	<u>28,909</u>	<u>42,080</u>	<u>50,534</u>
ANALYSIS OF CASH AND CASH EQUIVALENTS					
Bank and cash balances	<u>39,717</u>	<u>50,010</u>	<u>28,909</u>	<u>42,080</u>	<u>50,534</u>

STATEMENT OF FINANCIAL POSITION OF VMHK

	Note	As at 31 December			As at
		2017	2018	2019	30 June
		HK\$'000	HK\$'000	HK\$'000	2020
					HK\$'000
ASSETS					
Non-current assets					
Property, plant and equipment		514	356	259	301
Right-of-use assets		–	–	944	708
Investments in subsidiaries	20	<u>14,403</u>	<u>14,403</u>	<u>14,403</u>	<u>14,403</u>
Total non-current assets		<u>14,917</u>	<u>14,759</u>	<u>15,606</u>	<u>15,412</u>
Current assets					
Trade receivables		92,210	84,007	81,121	116,630
Contract assets		–	17,177	12,991	9,397
Prepayments, deposits and other receivables		15,353	20,756	16,281	24,528
Due from fellow subsidiaries		11,705	8,029	31,345	14,311
Due from subsidiaries		4,738	16,003	11,510	39,002
Due from intermediate parent		2,012	23,152	41,302	41,706
Due from immediate parent		123	123	123	123
Current tax assets		3,253	–	–	–
Bank and cash balances		<u>31,430</u>	<u>40,271</u>	<u>24,775</u>	<u>23,315</u>
Total current assets		<u>160,824</u>	<u>209,518</u>	<u>219,448</u>	<u>269,012</u>
TOTAL ASSETS		<u><u>175,741</u></u>	<u><u>224,277</u></u>	<u><u>235,054</u></u>	<u><u>284,424</u></u>
EQUITY AND LIABILITIES					
Share capital	31	14,889	14,889	14,889	14,889
Reserves	32(b)	<u>118,066</u>	<u>150,273</u>	<u>163,745</u>	<u>207,534</u>
Total equity		<u>132,955</u>	<u>165,162</u>	<u>178,634</u>	<u>222,423</u>

STATEMENT OF FINANCIAL POSITION OF VMHK (CONTINUED)

	As at 31 December			As at
	2017	2018	2019	30 June
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Non-current liabilities				
Lease liabilities	–	–	493	248
Current liabilities				
Trade payables	17,713	10,516	14,852	16,477
Other payables and accruals	8,989	12,071	8,259	10,745
Due to fellow subsidiaries	346	2,518	1,787	15,140
Due to a subsidiary	15,738	23,504	15,676	–
Bank loans	–	9,255	12,290	15,884
Lease liabilities	–	–	472	482
Current tax liabilities	–	1,251	2,591	3,025
Total current liabilities	42,786	59,115	55,927	61,753
TOTAL EQUITY AND LIABILITIES	175,741	224,277	235,054	284,424
Net current assets	118,038	150,403	163,521	207,259
Total assets less current liabilities	132,955	165,162	179,127	222,671

NOTES TO THE HISTORICAL FINANCIAL INFORMATION**1. GENERAL INFORMATION**

Vincent Medical Manufacturing Co., Limited (“**VMHK**”) was incorporated in Hong Kong with limited liability. The address of its registered office and principal place of business is Flat B2, 7/F., Phase 2, Hang Fung Industrial Building, 2G Hok Yuen Street, Hung Hom, Kowloon, Hong Kong.

VMHK is engaged in trading of medical devices and investment holding. The principal activities of its subsidiaries are set out in Note 20 to the Historical Financial Information.

In the opinion of the directors of VMHK, as at 30 June 2020, Vincent Medical Manufacturing Holdings Limited, a company incorporated in the British Virgin Islands, is the immediate parent; Vincent Medical Holdings Limited, a company incorporated in the Cayman Islands, is the intermediate parent; Vincent Raya International Limited, a company incorporated in the British Virgin Islands, is the ultimate parent. Mr. CHOI Man Shing and Ms. LIU Pui Ching are the ultimate controlling parties of VMHK.

The Historical Financial Information contained in this circular does not constitute VMHK’s statutory annual consolidated financial statements for any of the financial years ended 31 December 2017, 2018 and 2019.

VMHK’s statutory auditor, RSM Hong Kong, has reported on these financial statements for the years ended 31 December 2017, 2018 and 2019. The auditor’s reports were unqualified; did not include a reference to any matters to which the auditor drew attention by way of emphasis; and did not contain a statement under either sections 406(2), 407(2) or (3) of the Hong Kong Companies Ordinance.

2. BASIS OF PREPARATION AND PRESENTATION OF HISTORICAL FINANCIAL INFORMATION

The Historical Financial Information of VMHK Group 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. The Historical Financial Information also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on the Stock Exchange. Significant accounting policies adopted by VMHK Group are disclosed below.

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

3. ADOPTION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS**(a) Application of new and revised HKFRSs**

For the purpose of preparing the presenting the Historical Financial Information, VMHK has applied all the HKFRSs, HKAS and Interpretations issued by the HKICPA which are effective for the accounting period beginning on 1 January 2017 consistently throughout the years ended 31 December 2017, 2018 and 2019 and the six months ended 30 June 2020, except that (1) VMHK Group adopted HKFRS 9 Financial Instruments and HKFRS 15 Revenue from Contracts with Customers on 1 January 2018 and applied HKAS 39 Financial Instruments: Recognition and Measurement and HKAS 18 Revenue during the year ended 31 December 2017 and (2) VMHK Group adopted HKFRS 16 Leases on 1 January 2019 and applied HKAS 17 Leases during the years ended 31 December 2017 and 2018. The effect of adoption of these new standards on the Historical Financial Information are disclosed below.

HKFRS 9 Financial Instruments

HKFRS 9 replaces the provisions of HKAS 39 that relate to the recognition, classification and measurement of financial assets and financial liabilities, derecognition of financial instruments, impairment of financial assets and hedge accounting.

The adoption of HKFRS 9 from 1 January 2018 resulted in changes in accounting policies and adjustments to the amounts recognised in the financial statements. As permitted by the transitional provisions of HKFRS 9, VMHK Group was elected not to restate the figures for the year ended 31 December 2017. Any adjustments to the carrying amounts of financial assets and liabilities at the date of transition were recognised in the opening retained earnings of the year ended 31 December 2018.

The adoption of HKFRS 9 resulted in the following changes to VMHK Group's accounting policies.

(a) Classification

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

- those to be measured subsequently at FVTOCI or fair value through profit or loss (“FVTPL”), and
- those to be measured at amortised cost.

The classification depends on VMHK Group's business model for managing the financial assets and the contractual terms of the cash flows.

Financial assets are not reclassified subsequent to their initial recognition, except if and in the period VMHK Group changes its business model for managing financial assets.

For assets measured at fair value, gains and losses will either be recorded in profit or loss or other comprehensive income. For investments in equity instruments that are not held for trading, this will depend on whether VMHK Group has made an irrevocable election at the time of initial recognition to account for the equity investment at FVTOCI.

VMHK Group classifies its financial assets at amortised cost only if both of the following criteria are met:

- the asset is held within a business model with the objective of collecting the contractual cash flows; and
- the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal outstanding.

(b) Measurement

A financial asset (unless it is a trade receivable without a significant financing component) is initially measured at fair value plus, in the case of financial asset not at FVTPL, transactions costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVTPL are expensed in profit or loss. A trade receivable without a significant financing component is initially measured at the transaction price.

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

VMHK Group subsequently measures all equity investments at fair value. Where VMHK Group's management has elected to present fair value gains and losses on equity investments in other comprehensive income, there is no subsequent reclassification of fair value gains and losses to profit or loss following the derecognition of the investment. Dividends from such investments continue to be recognised in profit or loss as other income when VMHK Group's right to receive payments is established.

Changes in the fair value of financial assets at FVTPL are recognised in other gains/ (losses) in the statement of profit or loss as applicable. Impairment losses (and reversal of impairment losses) on equity investments measured at FVTOCI are not reported separately from other changes in fair value.

(c) Impairment

From 1 January 2018, VMHK Group assesses on a forward looking basis the expected credit losses associated with its financial assets carried at amortised cost. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

Expected credit losses are a probability-weighted estimate of credit losses (i.e. the present value of all cash shortfalls) over the expected life of the financial assets.

For trade receivables and contract assets, VMHK Group applies the simplified approach permitted by HKFRS 9, which requires expected lifetime losses to be recognised from initial recognition of the assets.

Impairment on other receivables are measured as either 12-month expected credit losses or lifetime expected credit losses, depending on whether there has been a significant increase in credit risk since initial recognition. If a significant increase in credit risk of a receivable has occurred since initial recognition, then impairment is measured as lifetime expected credit losses.

Set out below is the impact of the adoption of HKFRS 9 on VMHK Group.

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

Financial assets	Classification under HKAS 39	Classification under HKFRS 9	Carrying amount under HKAS 39 HK\$'000	Carrying amount under HKFRS 9 HK\$'000
Trade and other receivables and bank and cash balances	Loans and receivables	Amortised cost	171,446	171,446

HKFRS 15 Revenue from Contracts with Customers

HKFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaced HKAS 18 Revenue, HKAS 11 Construction Contracts and related interpretations.

VMHK Group has adopted HKFRS 15 using the cumulative effect method with the effect of initially applying this standard recognised at the date of initial application. Accordingly, the information presented for the year ended 31 December 2017 has not been restated, i.e. it is presented, as previously reported, under HKAS 18, HKAS 11 and related interpretations.

Under HKFRS 15, revenue is recognised when or as the control of promised goods or services is transferred to the customer. Depending on the terms of the contract and the laws that apply to the contract, control of promised goods or services may be transferred over time or at a point in time.

Control of the promised goods or services is transferred over time if VMHK Group's performance:

- provides all of the benefits received and consumed simultaneously by the customer;
- creates and enhances an asset that the customer control as VMHK Group performs; or
- does not create an asset with an alternative use to VMHK Group and VMHK Group has an enforceable right to payment for performance completed to date.

If control of the promised goods or services transfers over time, revenue is recognised over the period of the contract by reference to the progress towards complete satisfaction of the performance obligation. Otherwise, revenue is recognised at a point in time when the customer obtains control of the promised goods or services.

The progress towards complete satisfaction of the performance obligation is measured based on one of the following methods that best depict VMHK Group's performance in satisfying the performance obligation:

- the direct measurements of the value of assets transferred by VMHK Group to customer, or
- VMHK Group's efforts or inputs to the satisfaction of the performance obligations.

For the year ended 31 December 2017, revenue from the sales of OEM and OBM products is generally recognised when the risk and rewards of ownership have passed to the customers.

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

a) Revenue from the sales of OEM products

Under HKFRS 15, OEM products that have no alternative use to VMHK Group and when VMHK Group has an enforceable right to payment from the customers for performance completed to date, VMHK Group recognises revenue as the performance obligation is satisfied over time in accordance with the input method, by reference to the costs incurred to date over the total expected costs. Otherwise, sales are recognised when control of the products has transferred, being when the products are delivered to the customer. Delivery occurs when the products have been delivered to the designated location prescribed by the customer.

When either party to a contract has performed, VMHK Group presents the contract in the consolidated statement of financial position as a contract asset or a contract liability, depending on the relationship between the entity's performance and the customer's payment.

If a customer pays consideration or VMHK Group has a right to an amount of consideration that is unconditional, before VMHK Group transfers goods to the customer, VMHK Group presents the contract as a contract liability when the payment is made or a receivable is recorded (whichever is earlier). A contract liability is VMHK Group's obligation to transfer goods to a customer for which VMHK Group has received consideration (or an amount of consideration is due) from the customer.

A receivable is recorded when VMHK Group has an unconditional right to consideration. A right to consideration is unconditional if only the passage of time is required before payment of that consideration is due.

b) Revenue from the sales of OBM products

Under HKFRS 15, the sales of OBM products are recognised when control of the products has transferred, being when the products are delivered to the customer. Delivery occurs when the products have been shipped to the specific location, the risks of obsolescence and loss have been transferred to the customer, and either the customer has accepted the products in accordance with the sales contract, the acceptance provisions have lapsed, or VMHK Group has objective evidence that all criteria for acceptance have been satisfied.

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

The following table summarises the impact on VMHK Group's opening retained profits as at 1 January 2018 is as follows:

	<i>HK\$'000</i>
Sales of OEM products transferred over time	5,560
Related tax	<u>(596)</u>
Adjustment to retained profits from adoption of HKFRS 15 on 1 January 2018	<u><u>4,964</u></u>

The impact on VMHK Group's financial position by the application of HKFRS 15 as compared to HKAS 18, HKAS 11 and related interpretations that was previously in effect before the adoption of HKFRS 15 is as follows:

Consolidated statement of financial position (extract)	Previously stated as at 31 December 2017	Adjustments under HKFRS 15	Restated as at 1 January 2018
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Inventories	76,713	(12,262)	64,451
Contract assets	–	17,822	17,822
Current tax assets	3,272	(596)	2,676
Retained profits	243,767	4,964	248,731

The amount by each financial statements line items affected in the current period and period to date by the application of HKFRS 15 as compared to HKAS 18, HKAS 11 and related interpretations that was previously in effect before the adoption of HKFRS 15 is as follows:

Consolidated statement of financial position as at 31 December 2018 (extract)	As reported	Effect of the adoption of HKFRS 15	Amounts without adoption of HKFRS 15
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Inventories	73,762	11,702	85,464
Contract assets	17,177	(17,177)	–
Current tax liabilities	5,964	(587)	5,377
Retained profits	284,684	(4,888)	279,796

Consolidated statement of profit of loss for the year ended 31 December 2018 (extract)	As reported	Effect of the adoption of HKFRS 15	Amounts without adoption of HKFRS 15
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Revenue	387,687	645	388,332
Cost of sales	277,283	560	277,843
Income tax expense	4,027	9	4,036

HKFRS 16 Leases

HKFRS 16 supersedes HKAS 17 Leases, and the related interpretations, HK(IFRIC) 4 Determining whether an Arrangement contains a Lease, HK(SIC) 15 Operating Leases-Incentives and HK(SIC) 27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. HKFRS 16 introduced a single accounting model for lessees, which requires a lessee to recognise a right-of-use asset and a lease liability for all leases, except for leases that have a lease term of 12 months or less and leases of low-value assets.

Lessor accounting under HKFRS 16 is substantially unchanged from HKAS 17. Lessors will continue to classify leases as either operating or finance leases using similar principles as in HKAS 17. Therefore, HKFRS 16 did not have an impact on leases where VMHK Group is the lessor. The lessor accounting requirements are brought forward from HKAS 17 substantially unchanged.

HKFRS 16 also introduces additional qualitative and quantitative disclosure requirements which aim to enable users of the financial statements to assess the effect that leases have on the financial position, financial performance and cash flows of an entity.

VMHK Group has initially applied HKFRS 16 as from 1 January 2019. VMHK Group has elected to use the modified retrospective approach and has therefore recognised the cumulative effect of initial application as an adjustment to the opening balance of equity at 1 January 2019. Information for the years ended 31 December 2017 and 2018 has not been restated and continues to be reported under HKAS 17.

Further details of the nature and effect of the changes to previous accounting policies and the transition options applied are set out below:

(a) New definition of a lease

The change in the definition of a lease mainly relates to the concept of control. HKFRS 16 defines a lease on the basis of whether a customer controls the use of an identified asset for a period of time, which may be determined by a defined amount of use. Control is conveyed where the customer has both the right to direct the use of the identified asset and to obtain substantially all of the economic benefits from that use.

VMHK Group applies the new definition of a lease in HKFRS 16 only to contracts that were entered into or changed on or after 1 January 2019. For contracts entered into before 1 January 2019, VMHK Group has used the transitional practical expedient to grandfather the previous assessment of which existing arrangements are or contain leases. Accordingly, contracts that were previously assessed as leases under HKAS 17 continue to be accounted for as leases under HKFRS 16 and contracts previously assessed as non-lease service arrangements continue to be accounted for as executory contracts.

(b) Lessee accounting and transitional impact

HKFRS 16 eliminates the requirement for a lessee to classify leases as either operating leases or finance leases, as was previously required by HKAS 17. Instead, VMHK Group is required to capitalise all leases when it is the lessee, including leases previously classified as operating leases under HKAS 17, other than those short-term leases and leases of low-value assets which are exempt.

When recognising the lease liabilities for leases previously classified as operating leases, VMHK Group has applied the incremental borrowing rates of the relevant group entities at the date of initial application. The weighted average incremental borrowing rate applied is 6.4%.

To ease the transition to HKFRS 16, VMHK Group applied the following recognition exemption and practical expedients at the date of initial application of HKFRS 16:

- (i) elected not to apply the requirements of HKFRS 16 in respect of the recognition of lease liabilities and right-of-use assets to leases for which the remaining lease term ends within 12 months from the date of initial application of HKFRS 16, i.e. where the lease term ends on or before 31 December 2019;
- (ii) used hindsight based on facts and circumstances as at date of initial application in determining the lease term for VMHK Group's leases with extension options;
- (iii) excluded initial direct costs from measuring the right-of-use assets at the date of initial application; and
- (iv) relied on the assessment of whether leases are onerous by applying HKAS 37 as an alternative to an impairment review.

For the purposes of measuring deferred tax for leasing transactions in which VMHK Group recognises the right-of-use assets and the related lease liabilities, VMHK Group first determines whether the tax deductions are attributable to the right-of-use assets or the lease liabilities.

For leasing transactions in which the tax deductions are attributable to the lease liabilities, VMHK Group applies HKAS 12 requirements to the leasing transaction as a whole. Temporary differences relating to right-of-use assets and lease liabilities are assessed on a net basis. Excess of depreciation on right-of-use assets over the lease payments for the principal portion of lease liabilities resulting in net deductible temporary differences.

The following table reconciles the operating lease commitments as at 31 December 2018 as disclosed in Note 35 to the opening balance for lease liabilities recognised as at 1 January 2019:

	<i>HK\$'000</i>
Operating lease commitment disclosed at 31 December 2018	24,115
Discounted using the incremental borrowing rate at 1 January 2019	(2,127)
Less: Recognition exemption for leases with less than 12 months of leases term at transition	<u>(959)</u>
Lease liabilities recognised as at 1 January 2019	<u><u>21,029</u></u>
Of which are:	
Current lease liabilities	6,570
Non-current lease liabilities	<u>14,459</u>
	<u><u>21,029</u></u>

The right-of-use assets in relation to leases previously classified as operating leases have been recognised at an amount equal to the amount recognised for the remaining lease liabilities, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the consolidated statement of financial position at 31 December 2018.

The following table summarises the impacts of the adoption of HKFRS 16 on VMHK Group's consolidated statement of financial position:

Line items in the consolidated statement of financial position impacted by the adoption of HKFRS 16	Carrying amount as at 31 December 2018	Recognition of leases	Carrying amount as at 1 January 2019
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Assets			
Right-of-use assets	–	21,029	21,029
Liabilities			
Lease liabilities	–	21,029	21,029

(c) Impact of the financial results and cash flows of VMHK Group

After the initial recognition of right-of-use assets and lease liabilities as at 1 January 2019, VMHK Group as a lessee is required to recognise interest expense accrued on the outstanding balance of the lease liability, and the depreciation of the right-of-use asset, instead of the previous policy of recognising rental expenses incurred under operating leases on a straight-line basis over the lease term. This results in a positive impact on the reported profit from operations in VMHK Group's consolidated statement of profit or loss, as compared to the results if HKAS 17 had been applied during the year ended 31 December 2019.

In the consolidated cash flows statement, VMHK Group as a lessee is required to split rentals paid under capitalised leases into their principal element and interest element (Note 33(a)). These elements are classified as financing cash outflows and operating cash outflows respectively. Although total cash flows are unaffected, the adoption of HKFRS 16 therefore results in a significant change in presentation of cash flows within the consolidated cash flows statement (Note 33(b)).

The following tables give an indication of the estimated impact of the adoption of HKFRS 16 on VMHK Group's financial results and cash flows for the year ended 31 December 2019, by adjusting the amounts reported under HKFRS 16 in these Historical Financial Information to compute estimates of the hypothetical amounts that would have been recognised under HKAS 17 if this superseded standard had continued to apply in 2019 instead of HKFRS 16, and by comparing these hypothetical amounts for 2019 with the actual 2018 corresponding amounts which were prepared under HKAS 17.

	2019			2018	
	Amounts reported under HKFRS 16 HK\$'000	Add back: HKFRS 16 depreciation and interest expense HK\$'000	Deduct: Estimated amounts related to operating lease as if under HKAS 17 (Note) HK\$'000	Hypothetical amounts for 2019 as if under HKAS 17 HK\$'000	Compared to amounts reported for 2018 under HKAS 17 HK\$'000
Financial results for year ended 31 December 2019 impacted by the adoption of HKFRS 16:					
Profit from operations	35,028	6,967	(7,672)	34,323	43,883
Finance costs	(1,613)	1,142	-	(471)	(140)
Profits before tax	33,415	8,109	(7,672)	33,852	43,743
Profit for the year	<u>31,084</u>	<u>8,109</u>	<u>(7,672)</u>	<u>31,521</u>	<u>39,716</u>

	2019		2018	
	Amounts reported under HKFRS 16 <i>HK\$'000</i>	Estimated amounts related to operating lease as if under HKAS 17 (<i>Note</i>) <i>HK\$'000</i>	Hypothetical amounts for 2019 as if under HKAS 17 <i>HK\$'000</i>	Compared to amounts reported for 2018 under HKAS 17 <i>HK\$'000</i>
Line items in the consolidated cash flows statement for year ended 31 December 2019 impacted by the adoption of HKFRS 16:				
Cash generated from/(used in) operations	3,317	(7,672)	(4,355)	11,649
Interest element of lease rentals paid	(1,142)	1,142	-	-
Net cash generated from/ (used in) operating activities	1,477	(6,530)	(5,053)	13,025
Capital element of lease rentals paid	(6,530)	6,530	-	-
Net cash generated from financing activities	<u>7,881</u>	<u>6,530</u>	<u>14,411</u>	<u>11,658</u>

Note:

The “estimated amounts related to operating leases” is an estimate of the amounts of the cash flows in 2019 that relate to leases which would have been classified as operating leases, if HKAS 17 had still applied in 2019. This estimate assumes that there were no difference between rentals and cash flows and that all of the new leases entered into in 2019 would have been classified as operating leases under HKAS 17, if HKAS 17 had still applied in 2019. Any potential net tax effect is ignored.

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

VMHK Group has not early applied new and revised HKFRSs that have been issued but are not yet effective for the financial period beginning 1 January 2020. VMHK 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 it has concluded that the adoption of them is unlikely to have a significant impact on the Historical Financial Information.

4. SIGNIFICANT ACCOUNTING POLICIES

The Historical Financial Information have been prepared under the historical cost convention, unless mentioned otherwise in the accounting policies below (e.g. certain financial instruments that are measured at fair value).

The preparation of Historical Financial Information in conformity with HKFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying VMHK Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the Historical Financial Information are disclosed in Note 5.

The significant accounting policies applied in the preparation of these Historical Financial Information are set out below.

(a) Consolidation

The Historical Financial Information include the financial statements of VMHK and its subsidiaries made up to 31 December/30 June. Subsidiaries are entities over which VMHK Group has control. VMHK Group controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. VMHK Group has power over an entity when VMHK Group has existing rights that give it the current ability to direct the relevant activities, i.e. activities that significantly affect the entity's returns.

When assessing control, VMHK Group considers its potential voting rights as well as potential voting rights held by other parties. A potential voting right is considered only if the holder has the practical ability to exercise that right.

Subsidiaries are consolidated from the date on which control is transferred to VMHK Group. They are de-consolidated from the date the control ceases.

The gain or loss on the disposal of a subsidiary that results in a loss of control represents the difference between (i) the fair value of the consideration of the sale plus the fair value of any investment retained in that subsidiary and (ii) VMHK's share of the net assets of that subsidiary plus any remaining goodwill and any accumulated foreign currency translation reserve relating to that subsidiary.

Intragroup transactions, balances and unrealised profits are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by VMHK Group.

Non-controlling interests represent the equity in subsidiaries not attributable, directly or indirectly, to VMHK. Non-controlling interests are presented in the consolidated statement of financial position and consolidated statement of changes in equity within equity. Non-controlling interests are presented in the consolidated statement of profit or loss and consolidated statement of profit or loss and other comprehensive income as an allocation of profit or loss and total comprehensive income for the year between the non-controlling shareholders and owners of VMHK.

Profit or loss and each component of other comprehensive income are attributed to the owners of VMHK and to the non-controlling shareholders even if this results in the non-controlling interests having a deficit balance.

Changes in VMHK's ownership interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions (i.e. transactions with owners in their capacity as owners). The carrying amounts of the controlling and non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiary. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to the owners of VMHK.

In the VMHK's statement of financial position, an investment in a subsidiary is stated at cost less impairment loss, unless the investment is classified as held for sale (or included in a disposal group that is classified as held for sale).

(b) Associates

Associates are entities over which VMHK Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of an entity but is not control or joint control over those policies. The existence and effect of potential voting rights that are currently exercisable or convertible, including potential voting rights held by other entities, are considered when assessing whether VMHK Group has significant influence. In assessing whether a potential voting right contributes to significant influence, the holder's intention and financial ability to exercise or convert that right is not considered.

Investment in an associate is accounted for in the Historical Financial Information by the equity method and is initially recognised at cost. Identifiable assets and liabilities of the associate in an acquisition are measured at their fair values at the acquisition date. The excess of the cost of the investment over VMHK Group's share of the net fair value of the associate's identifiable assets and liabilities is recorded as goodwill. The goodwill is included in the carrying amount of the investment and is tested for impairment together with the investment at

the end of each reporting period when there is objective evidence that the investment is impaired. Any excess of VMHK Group's share of the net fair value of the identifiable assets and liabilities over the cost of acquisition is recognised in consolidated profit or loss.

VMHK Group's share of an associate's post-acquisition profits or losses and other comprehensive income is recognised in consolidated profit or loss and other comprehensive income. When VMHK Group's share of losses in an associate equals or exceeds its interest in the associate (which include any long term interests that in substance, from part of VMHK Group's net investment in the associate), VMHK Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate. If the associate subsequently reports profits, VMHK Group resumes recognising its share of those profits only after its share of the profits equals the share of losses not recognised.

The gain or loss on the disposal of an associate that results in a loss of significant influence represents the difference between (i) the fair value of the consideration of the sale plus the fair value of any investment retained in that associate and (ii) VMHK Group's entire carrying amount of that associate (including goodwill) and any related accumulated foreign currency translation reserve. If an investment in an associate becomes an investment in a joint venture, VMHK Group continues to apply the equity method and does not remeasure the retained interest.

Unrealised profits on transactions between VMHK Group and its associates are eliminated to the extent of VMHK Group's interests in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by VMHK Group.

(c) Foreign currency translation

(i) Functional and presentation currency

Items included in the financial statements of each of VMHK Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "**functional currency**"). The Historical Financial Information are presented in Hong Kong dollars ("**HKD**"), which is VMHK's functional and presentation currency.

(ii) Transactions and balances in each entity's financial statements

Transactions in foreign currencies are translated into the functional currency on initial recognition using the exchange rates prevailing on the transaction dates. Monetary assets and liabilities in foreign currencies are translated at the exchange rates at the end of each reporting period. Gains and losses resulting from this translation policy are recognised in profit or loss.

Non-monetary items that are measured at fair values in foreign currencies are translated using the exchange rates at the dates when the fair values are determined.

When a gain or loss on a non-monetary item is recognised in other comprehensive income, any exchange component of that gain or loss is recognised in other comprehensive income. When a gain or loss on a non-monetary item is recognised in profit or loss, any exchange component of that gain or loss is recognised in profit or loss.

(iii) Translation on consolidation

The results and financial position of all VMHK Group entities that have a functional currency different from VMHK's presentation currency are translated into VMHK's presentation currency as follows:

- Assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of that statement of financial position;
- Income and expenses are translated at average exchange rates for the period (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the exchange rates on the transaction dates); and
- All resulting exchange differences are recognised in other comprehensive income and accumulated in the foreign currency translation reserve.

On consolidation, exchange differences arising from the translation of monetary items that form part the net investment in foreign entities are recognised in other comprehensive income and accumulated in the foreign currency translation reserve. When a foreign operation is sold, such exchange differences are reclassified in the consolidated profit or loss as part of the gain or loss on disposal.

(d) Property, plant and equipment

Property, plant and equipment are stated in the consolidated statement of financial position at cost, less subsequent accumulated depreciation and subsequent accumulated impairment losses, if any.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to VMHK Group and the cost of the item can be measured reliably. All other repairs and maintenance are recognised in profit or loss during the period in which they are incurred.

Depreciation of property, plant and equipment is calculated at rates sufficient to write off their cost less their residual values over the estimated useful lives on a straight-line basis. The principal annual rates are as follows:

Furniture and fixtures	20% – 33%
Plant and machinery	10% – 20%
Leasehold improvements	20% – 33%
Moulds	20% – 33%
Motor vehicles	20%

The residual values, useful lives and depreciation method are reviewed and adjusted, if appropriate, at the end of each reporting period.

Construction in progress represents leasehold improvements under construction and plant and equipment pending installation, and is stated at cost less impairment losses. Depreciation begins when the relevant assets are available for use.

The gain or loss on disposal of property, plant and equipment is the difference between the net sales proceeds and the carrying amount of the relevant asset, and is recognised in profit or loss.

(e) Leases

Policy applicable from 1 January 2019

At inception of a contract, VMHK Group assesses whether the contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. Control is conveyed where the customer has both the right to direct the use of the identified asset and to obtain substantially all of the economic benefits from that use.

VMHK Group as a lessee

Where the contract contains lease component(s) and non-lease component(s), VMHK Group has elected not to separate non-lease components and accounts for each lease component and any associated non-lease components as a single lease component for all leases.

At the lease commencement date, VMHK Group recognises a right-of-use asset and a lease liability, except for short-term leases that have a lease term of 12 months or less and leases of low-value assets which, for VMHK Group are primarily IT equipment. When VMHK Group enters into a lease in respect of a low-value asset, VMHK Group decides whether to capitalise the lease on a lease-by-lease basis. The lease payments associated with those leases which are not capitalised are recognised as an expense on a systematic basis over the lease term.

Where the lease is capitalised, the lease liability is initially recognised at the present value of the lease payments payable over the lease term, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, using a relevant incremental borrowing rate. After initial recognition, the lease liability is measured at amortised cost and interest expense is calculated using the effective interest method. Variable lease payments that do not depend on an index or rate are not included in the measurement of the lease liability and hence are charged to profit or loss in the accounting period in which they are incurred.

The right-of-use asset recognised when a lease is capitalised is initially measured at cost, which comprises the initial amount of the lease liability plus any lease payments made at or before the commencement date, and any initial direct costs incurred. Where applicable, the cost of the right-of-use assets also includes an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, discounted to their present value, less any lease incentives received. The right-of-use asset is subsequently stated at cost less accumulated depreciation and impairment losses.

Right-of-use assets in which VMHK Group is reasonably certain to obtain ownership of the underlying leased assets at the end of the lease term are depreciated from commencement date to the end of the useful life. Otherwise, right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term.

Refundable rental deposits paid are accounted under HKFRS 9 and initially measured at fair value. Adjustments to fair value at initial recognition are considered as additional lease payments and included in the cost of right-of-use assets.

The lease liability is remeasured when there is a change in future lease payments arising from a change in an index or rate, or there is a change in VMHK Group's estimate of the amount expected to be payable under a residual value guarantee, or there is a change arising from the reassessment of whether VMHK Group will be reasonably certain to exercise a purchase, extension or termination option. When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

VMHK Group presents right-of-use assets that do not meet the definition of investment properties and lease liabilities separately in the consolidated statement of financial position.

Policy prior to 1 January 2019

Prior to 1 January 2019, as a lessee VMHK Group classified leases as finance leases if the leases transferred substantially all the risks and rewards of ownership to VMHK Group. Leases which did not transfer substantially all the risks and rewards of ownership to VMHK Group were classified as operating leases, except for the property held under operating leases that would otherwise meet the definition of an investment property was classified as investment property on a property-by-property basis and, if classified.

Where VMHK Group had the use of assets held under operating leases, payments made under the leases were charged to profit or loss in equal instalments over the accounting periods covered by the lease term, except where an alternative basis was more representative of the pattern of benefits to be derived from the leased asset. Lease incentives received were recognised in profit or loss as an integral part of the aggregate net lease payments made. Contingent rentals were charged to profit or loss in the accounting period in which they were incurred.

(f) Research and development expenditure

Expenditure on research activities is recognised as an expense in the period in which it is incurred. An internally generated intangible asset arising from the development is recognised only if all of the following conditions are met:

- The technical feasibility of completing the intangible asset so that it will be available for use or sale;
- Management intends to complete the intangible asset and use or sell it;
- There is ability to use or sell the intangible asset;
- It can be demonstrated how the intangible asset will generate probable future economic benefits;
- Adequate technical, financial and other resources to complete the development and to use or sell the intangible asset are available; and
- The expenditure attributable to the intangible asset during its development can be reliably measured.

Internally generated intangible assets are stated at cost less accumulated amortisation and impairment losses. Amortisation is calculated on a straight-line basis over their estimated useful lives. Where no internally generated intangible asset can be recognised, development expenditure is recognised in profit or loss in the period in which it is incurred.

(g) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the weighted average basis. The cost of finished goods and work in progress comprises raw materials, direct labour and an appropriate proportion of all production overhead expenditure, and where appropriate, subcontracting charges. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and the estimated costs necessary to make the sale.

(h) Contract assets and contract liabilities

Contract asset is recognised when VMHK Group recognises revenue before being unconditionally entitled to the consideration under the payment terms set out in the contract. Contract assets are assessed for expected credit losses (“ECL”) in accordance with the policy set out in Note 4(w) and are reclassified to receivables when the right to the consideration has become unconditional.

A contract liability is recognised when the customer pays consideration before VMHK Group recognises the related revenue. A contract liability would also be recognised if VMHK Group has an unconditional right to receive consideration before VMHK Group recognises the related revenue. In such cases, a corresponding receivable would also be recognised.

For a single contract with the customer, either a net contract asset or a net contract liability is presented. For multiple contracts, contract assets and contract liabilities of unrelated contracts are not presented on a net basis.

(i) Recognition and derecognition of financial instruments

Financial assets and financial liabilities are recognised in the consolidated statement of financial position when VMHK Group entity becomes a party to the contractual provisions of the instrument.

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

VMHK Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If VMHK Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, VMHK Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If VMHK Group retains substantially all the risks and rewards of ownership of a transferred financial asset, VMHK Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

VMHK Group derecognises financial liabilities when, and only when, VMHK Group's obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable, including any non-cash assets transferred or liabilities assumed, is recognised in profit or loss.

(j) Financial assets*Policy applicable from 1 January 2018*

All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace. All recognised financial assets are measured subsequently in their entirety at either amortised cost or fair value, depending on the classification of the financial assets.

Equity investments

An investment in equity securities is classified as FVTPL unless the equity investment is not held for trading purposes and on initial recognition of the investment VMHK Group makes an election to designate the investment at FVTOCI (non-recycling) such that subsequent changes in fair value are recognised in other comprehensive income. Such elections are made on an instrument-by-instrument basis, but may only be made if the investment meets the definition of equity from the issuer's perspective. Where such an election is made, the amount accumulated in other comprehensive income remains in the fair value reserve (non-recycling) until the investment is disposed of. At the time of disposal, the amount accumulated in the fair value reserve (non-recycling) is transferred to retained profits. It is not recycled through profit or loss. Dividends from an investment in equity securities, irrespective of whether classified as at FVTPL or FVTOCI, are recognised in profit or loss as other income.

Policy prior to 1 January 2018

Financial assets are recognised and derecognised on a trade date basis where the purchase or sale of an financial asset is under a contract whose terms require delivery of the financial assets within the timeframe established by the market concerned, and are initially measured at fair value, plus directly attributable transaction costs except in the case of financial assets at fair value through profit or loss.

VMHK Group classifies its financial assets as loans and receivables. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. These assets are carried at amortised cost using the effective interest method (except for short-term receivables where interest is immaterial) minus any reduction for impairment or uncollectability. Typically trade and other receivables, bank balances and cash are classified in this category.

(k) Trade and other receivables

A receivable is recognised when VMHK Group has an unconditional right to receive consideration. A right to receive consideration is unconditional if only the passage of time is required before payment of that consideration is due. If revenue has been recognised before VMHK Group has an unconditional right to receive consideration, the amount is presented as a contract asset.

Receivables are stated at amortised cost using the effective interest method less allowance for credit losses.

(l) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition. Bank overdrafts that are repayable on demand and form an integral part of VMHK Group's cash management are also included as a component of cash and cash equivalents for the purpose of the consolidated cash flows statement. Cash and cash equivalents are assessed for ECL since the adoption of HKFRS 9 on 1 January 2018.

(m) Financial liabilities and equity instruments

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument under HKFRSs. An equity instrument is any contract that evidences a residual interest in the assets of VMHK Group after deducting all of its liabilities. The accounting policies adopted for specific financial liabilities and equity instruments are set out below.

(n) Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred, and subsequently measured at amortised cost using the effective interest method.

Borrowings are classified as current liabilities unless VMHK Group has an unconditional right to defer settlement of the liability for at least 12 months after the reporting period.

(o) Trade and other payables

Trade and other payables are stated initially at their fair value and subsequently measured at amortised cost using the effective interest method unless the effect of discounting would be immaterial, in which case they are stated at cost.

(p) Equity instruments

An equity instrument is any contract that evidence a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by VMHK are recorded at the proceeds received, net of direct issue costs.

(q) Revenue and other income

Policy applicable from 1 January 2018

Revenue is recognised when control over a product or service is transferred to the customer, at the amount of promised consideration to which VMHK Group is expected to be entitled, excluding those amounts collected on behalf of third parties. Revenue excludes value added tax or other sales taxes and is after deduction of any trade discounts.

OEM products that have no alternative use to VMHK Group and when VMHK Group has an enforceable right to payment from the customers for performance completed to date, VMHK Group recognises revenue as the performance obligation is satisfied over time in accordance with the input method, by reference to the costs incurred to date over the total expected costs. Otherwise, sales are recognised when control of the products has transferred, being when the products are delivered to the customer. Delivery occurs when the products have been delivered to the designated location prescribed by the customer.

Revenue from the sales of OBM products are recognised when control of the products has transferred, being when the products are delivered to the customer. Delivery occurs when the products have been shipped to the specific location, the risks of obsolescence and loss have been transferred to the customer, and either the customer has accepted the products in accordance with the sales contract, the acceptance provisions have lapsed, or VMHK Group has objective evidence that all criteria for acceptance have been satisfied.

Interest income is recognised as it accrues using the effective interest method. For financial assets measured at amortised cost or FVTOCI (recycling) that are not credit-impaired, the effective interest rate is applied to the gross carrying amount of the asset. For credit impaired financial assets, the effective interest rate is applied to the amortised cost (i.e. gross carrying amount net of loss allowance) of the asset.

Policy prior to 1 January 2018

Revenue is measured at the fair value of the consideration received or receivable and is recognised when it is probable that the economic benefits will flow to VMHK Group and the amount of revenue can be measured reliably.

Revenues from the sales of manufactured goods is recognised on the transfer of significant risks and rewards of ownership, which generally coincides with the time when the goods are delivered and the title has passed to the customers.

Interest income is recognised on a time-proportion basis using the effective interest method.

(r) Employee benefits**(i) Employee leave entitlements**

Employee entitlements to annual leave and long service leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave and long service leave as a result of services rendered by employees up to the end of the reporting period.

Employee entitlements to sick leave and maternity leave are not recognised until the time of leave.

(ii) Pension obligations

VMHK Group contributes to defined contribution retirement schemes which are available to all employees. Contributions to the schemes by VMHK Group and employees are calculated as a percentage of employees' basic salaries. The retirement benefit scheme cost charged to the profit or loss represents contributions payable by VMHK Group to the funds.

(iii) Termination benefits

Termination benefits are recognised at the earlier of the dates when VMHK Group can no longer withdraw the offer of those benefits, and when VMHK Group recognises restructuring costs and involves the payment of termination benefits.

(s) Borrowing costs

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

To the extent that funds are borrowed generally and used for the purpose of obtaining a qualifying asset, the amount of borrowing costs eligible for capitalisation is determined by applying a capitalisation rate to the expenditures on that asset. The capitalisation rate is the weighted average of the borrowing costs applicable to the borrowings of VMHK Group that are outstanding during the period, other than borrowings made specifically for the purpose of obtaining a qualifying asset.

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

(t) Government grants

A government grant is recognised when there is reasonable assurance that VMHK Group will comply with the conditions attaching to it and that the grant will be received.

Government grants relating to income are deferred and recognised in profit or loss over the period to match them with the costs they are intended to compensate.

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

(u) Taxation

Income tax represents the sum of the current tax and deferred tax.

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

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the Historical Financial Information and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences, unused tax losses or unused tax credits can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries except where VMHK Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

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

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised, based on tax rates that have been enacted or substantively enacted by the end of the reporting period. Deferred tax is recognised in profit or loss, except when it relates to items recognised in other comprehensive income or directly in equity, in which case the deferred tax is also recognised in other comprehensive income or directly in equity.

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

For the purposes of measuring deferred tax for leasing transactions in which VMHK Group recognises the right-of-use assets and the related lease liabilities, VMHK Group first determines whether the tax deductions are attributable to the right-of-use assets or the lease liabilities.

For leasing transactions in which the tax deductions are attributable to the lease liabilities, VMHK Group applies HKAS 12 requirements to the leasing transaction as a whole. Temporary differences relating to right-of-use assets and lease liabilities are assessed on a net basis. Excess of depreciation on right-of-use assets over the lease payments for the principal portion of lease liabilities resulting in net deductible temporary differences.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and VMHK Group intends to settle its current tax assets and liabilities on a net basis.

(v) Impairment of non-financial assets

The carrying amounts of non-financial assets are reviewed at each reporting date for indications of impairment and where an asset is impaired, it is written down as an expense through the consolidated statement of profit or loss to its estimated recoverable amount. The recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. If this is the case, recoverable amount is determined for the cash-generating unit to which the asset belongs. Recoverable amount is the higher of value in use and the fair value less costs of disposal of the individual asset or the cash-generating unit.

Value in use is the present value of the estimated future cash flows of the asset/cash-generating unit. Present values are computed using pre-tax discount rates that reflect the time value of money and the risks specific to the asset/cash-generating unit whose impairment is being measured.

Impairment losses for cash-generating units are allocated first against the goodwill of the unit and then pro rata amongst the other assets of the cash-generating unit. Subsequent increases in the recoverable amount caused by changes in estimates are credited to profit or loss to the extent that they reverse the impairment.

(w) Impairment of financial assets and contracts assets

Policy applicable from 1 January 2018

VMHK Group assesses on a forward looking basis the ECL associated with its assets carried at amortised cost. The impairment methodology applied depends on whether there has been a significant increase in credit risk. Note 6(b) details how VMHK Group determines whether there has been a significant increase in credit risk.

ECL are a probability-weighted estimate of credit losses (i.e. the present value of all cash shortfalls) over the expected life of the financial assets.

For trade receivables and contract assets, VMHK Group applies the simplified approach permitted by HKFRS 9, which requires expected lifetime losses to be recognised from initial recognition of the assets.

Impairment on other receivables are measured as either 12-month ECL or lifetime ECL, depending on whether there has been a significant increase in credit risk since initial recognition. If a significant increase in credit risk of a receivable has occurred since initial recognition, then impairment is measured as lifetime ECL.

Policy prior to 1 January 2018

At the end of each reporting period, VMHK Group assesses whether its financial assets (other than those at fair value through profit or loss) are impaired, based on objective evidence that, as a result of one or more events that occurred after the initial recognition, the estimated future cash flows of the (group of) financial asset(s) have been affected.

For trade receivables that are assessed not to be impaired individually, VMHK Group assesses them collectively for impairment, based on VMHK Group's past experience of collecting payments, an increase in the delayed payments in the portfolio, observable changes in economic conditions that correlate with default on receivables, etc.

Only for trade receivables, the carrying amount is reduced through the use of an allowance account and subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss.

For all other financial assets, the carrying amount is directly reduced by the impairment loss.

For financial assets measured at amortised cost, if the amount of the impairment loss decreases in a subsequent period and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed (either directly or by adjusting the allowance account for trade receivables) through profit or loss. However, the reversal must not result in a carrying amount that exceeds what the amortised cost of the financial asset would have been had the impairment not been recognised at the date the impairment is reversed.

(x) Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when VMHK Group has a present legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditures expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow is remote.

(y) Events after the reporting period

Events after the reporting period that provide additional information about VMHK Group's position at the end of the reporting period or those that indicate the going concern assumption is not appropriate are adjusting events and are reflected in the Historical Financial Information. Events after the reporting period that are not adjusting events are disclosed in the notes to the Historical Financial Information when material.

5. CRITICAL JUDGEMENTS AND KEY ESTIMATES**Key sources of estimation uncertainty**

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

(a) Impairment and depreciation of property, plant and equipment and right-of-use assets

Property, plant and equipment and right-of-use assets are stated at costs less accumulated depreciation and impairment, if any. In determining whether an asset is impaired, VMHK Group has to exercise judgment and make estimation, particularly in assessing: (1) whether an event has occurred or any indicators that may affect the asset value; (2) whether the carrying value of an asset can be supported by the recoverable amount, in the case of value in use, the net present value of future cash flows which are estimated based upon the continued use of the asset; and (3) the appropriate key assumptions to be applied in estimating the recoverable amounts including cash flow projections and an appropriate discount rate. When it is not possible to estimate the recoverable amount of an individual asset (including right-of-use assets), VMHK Group estimates the recoverable amount of the cash-generating unit to which the assets belongs. Changing the assumptions and estimates, including the discount rates or the growth rate in the cash flow projections, could materially affect the net present value used in the impairment test.

VMHK Group determines the estimated useful lives, residual values and related depreciation charges for VMHK Group's property, plant and equipment. This estimate is based on the historical experience of the actual useful lives and residual values of property, plant and equipment of similar nature and functions. VMHK Group will revise the depreciation charge where useful lives are different to those previously estimated, or it will write-off or write-down technically obsolete or non-strategic assets that have been abandoned or sold.

The carrying amounts of property, plant and equipment as at 31 December 2017, 2018 and 2019 and 30 June 2020 were approximately HK\$41,322,000, HK\$41,231,000, HK\$54,529,000 and HK\$66,834,000 respectively.

The carrying amounts of right-of-use assets as at 31 December 2017, 2018 and 2019 and 30 June 2020 were approximately HK\$Nil, HK\$Nil, HK\$13,734,000 and HK\$11,819,000 respectively.

(b) Income taxes

VMHK Group is subject to income taxes in several jurisdictions. Significant estimates are required in determining the provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made. During the years ended 31 December 2017, 2018 and 2019 and the six months ended 30 June 2019 (unaudited) and 2020, income tax of approximately HK\$3,565,000, HK\$4,027,000, HK\$2,331,000, HK\$1,878,000 and HK\$12,698,000 respectively were charged to profit or loss based on the estimated profits.

(c) Impairment of trade receivables and contract assets

Prior to the adoption of HKFRS 9 on 1 January 2018, the management of VMHK Group assesses at the end of each reporting period whether there is any objective evidence that trade receivables are impaired. The provision policy for bad and doubtful debts of VMHK Group is based on the evaluation of collectability and aging analysis of accounts and on management's judgement. A considerable amount of judgement is required in assessing the ultimate realisation of trade receivables, including the current creditworthiness and the past collection history of each customer. If the financial conditions of customers of VMHK Group were to deteriorate, resulting in an impairment of their ability to make payments, additional allowance may be required.

As at 31 December 2017, the carrying amount of trade receivables was approximately HK\$92,676,000 (with no allowance for doubtful debts).

Since the adoption of HKFRS 9 on 1 January 2018, the management of VMHK Group estimates the amount of impairment loss for ECL on trade receivables and contract assets based on the credit risk of trade receivables and contract assets. The amount of the impairment loss based on ECL model is measured as the difference between all contractual cash flows that are due to VMHK Group in accordance with the contract and all the cash flows that VMHK Group expects to receive, discounted at the effective interest rate determined at initial recognition. Where the future cash flows are less than expected, or being revised downward due to changes in facts and circumstances, a material impairment loss may arise.

As at 31 December 2018 and 2019 and 30 June 2020, the carrying amounts of trade receivables and contract assets were approximately HK\$101,980,000, HK\$94,607,000 and HK\$126,027,000 respectively (net of allowance for doubtful debts of approximately HK\$163,000, HK\$215,000 and HK\$215,000 respectively).

(d) Allowance for slow-moving inventories

Allowance for slow-moving inventories is made based on the ageing and estimated net realisable value of inventories. The assessment of the allowance amount involves judgement and estimates. Where the actual outcome in future is different from the original estimate, such difference will impact the carrying value of inventories and allowance charge/write-back in the period in which such estimate has been changed. During the years ended 31 December 2017, 2018 and 2019 and the six months ended 30 June 2019 (unaudited) and 2020, allowance for slow-moving inventories of approximately HK\$Nil, HK\$1,851,000, (HK\$493,000), HK\$Nil and HK\$5,840,000 were made/(reversed) respectively.

6. FINANCIAL RISK MANAGEMENT

VMHK Group's activities expose it to a variety of financial risks: foreign currency risk, credit risk, liquidity risk and interest rate risk. VMHK Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on VMHK Group's financial performance.

(a) Foreign currency risk

VMHK Group has certain exposure to foreign currency risk as some of its business transactions, assets and liabilities are denominated in currencies other than the functional currency of respective VMHK Group entities such as United States dollars ("USD") and Renminbi ("RMB"). The directors have assessed the impact of foreign currency risk and considered that it is insignificant to VMHK Group. VMHK Group currently does not have a foreign currency hedging policy in respect of foreign currency transactions, assets and liabilities. VMHK Group monitors its foreign currency exposure closely and will consider hedging significant foreign currency exposure should the need arise.

(b) Credit risk

Credit risk is the risk that a counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss. VMHK Group is exposed to credit risk in relation to its trade and other receivables, contract assets and cash and bank balances.

VMHK Group has policies in place to ensure that sales are made to customers with an appropriate credit history. In order to minimise credit risk, the directors have delegated a team to be responsible for the determination of credit limits and credit approvals. It also has other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the directors review the recoverable amount of each individual trade debt regularly to ensure that adequate impairment losses are recognised for irrecoverable debts. In this regard, the directors consider that VMHK Group's credit risk is significant reduced.

As at 31 December 2017, 2018 and 2019 and 30 June 2020, there were 2, 2, 2 and 4 customers respectively which individually contributed over 10% of VMHK Group's trade receivables and contract assets. The aggregate amounts of trade receivables and contract assets from these customers amounted to 80%, 81%, 78% and 86% of VMHK Group's total trade receivables and contract assets as at 31 December 2017, 2018 and 2019 and 30 June 2020 respectively.

The credit risk on bank and cash balances is limited because the counterparties are banks with high credit-ratings assigned by international credit-rating agencies.

Since the adoption of HKFRS 9 on 1 January 2018, VMHK Group considers the probability of default upon initial recognition of asset and whether there has been a significant increase in credit risk on an ongoing basis throughout each reporting period. To assess whether there is a significant increase in credit risk, VMHK Group compares the risk of a default occurring on the asset as at the reporting date with the risk of default as at the date of initial recognition. It considers available reasonable and supportive forwarding-looking information. Especially the following indicators are incorporated:

- external credit rating (as far as available)
- actual or expected significant adverse changes in business, financial or economic conditions that are expected to cause a significant change to the counterparty's ability to meet its obligations
- actual or expected significant changes in the operating results of the counterparty
- significant expected changes in the performance and behaviour of the counterparty, including changes in the payment status of counterparties in VMHK Group and changes in the operating results of the counterparty

A default on a financial asset is when the counterparty fails to make contractual payments when they fall due.

Financial assets are written off when there is no reasonable expectation of recovery.

(i) Trade receivables and contract assets

VMHK Group applies the simplified approach to providing for ECL prescribed by HKFRS 9, which permits the use of the lifetime expected loss provision for all trade receivables and contract assets. The expected loss rate of current trade receivables and contract assets are assessed to be nearly 0%. As at 31 December 2018 and 2019 and 30 June 2020, the loss allowance provision for these balances was not material.

Movement in the loss allowance account in respect of trade receivables and contract assets during the Relevant Period is as follows:

	As at 31 December			As at 30 June
	2017 <i>HK\$'000</i>	2018 <i>HK\$'000</i>	2019 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
At 1 January	–	–	163	215
Impairment losses recognised for the year/period	–	163	52	–
At 31 December/30 June	–	163	215	215

(ii) Other receivables

VMHK Group has assessed that the expected credit losses for other receivables are not material under the 12-month expected losses method. No loss allowance provision was recognised during the Relevant Period.

(c) **Liquidity risk**

VMHK Group's policy is to regularly monitor current and expected liquidity requirements to ensure that it maintains sufficient reserves of cash to meet its liquidity requirements in the short and longer term.

The maturity analysis based on contractual undiscounted cash flows of VMHK Group's non-derivative financial liabilities is as follow:

	On demand or within 1 year	Between 1 and 2 years	Between 2 and 5 years	Total
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
At 31 December 2017				
Trade payables	33,226	–	–	33,226
Other payables and accruals	19,711	–	–	19,711
Due to fellow subsidiaries	346	–	–	346
At 31 December 2018				
Trade payables	29,353	–	–	29,353
Other payables and accruals	14,967	–	–	14,967
Due to fellow subsidiaries	4,337	–	–	4,337
Bank loan	9,255	–	–	9,255
At 31 December 2019				
Trade payables	34,661	–	–	34,661
Other payables and accruals	17,275	–	–	17,275
Due to fellow subsidiaries	3,702	–	–	3,702
Bank loans	23,454	–	–	23,454
Lease liabilities	7,561	7,561	–	15,122
At 30 June 2020				
Trade payables	135,696	–	–	135,696
Other payables and accruals	40,284	–	–	40,284
Due to fellow subsidiaries	10,506	–	–	10,506
Bank loans	26,832	–	–	26,832
Lease liabilities	8,649	4,325	–	12,974

For bank loans which contain a repayment on demand clause which can be exercised at the bank's sole discretion, the above maturity analysis shows the cash outflow based on the earliest period in which the entity can be required to pay, that is if the lender was to invoke its unconditional rights to call the loans with immediate effect.

Taking into account VMHK Group's financial position, the directors do not consider that it is probable that the banks will exercise its discretion to demand immediate repayment. The directors believe that such bank loans will be repaid in accordance with the scheduled repayment dates set out in the loan agreements.

The maturity analysis of the bank loans with a repayment on demand clause based on agreed scheduled repayment set out in the loan agreements is as follows:

	On demand or within 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years	Total
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
At 31 December 2017	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>
At 31 December 2018	<u>2,123</u>	<u>2,123</u>	<u>5,485</u>	<u>–</u>	<u>9,731</u>
At 31 December 2019	<u>3,239</u>	<u>3,239</u>	<u>6,524</u>	<u>–</u>	<u>13,002</u>
At 30 June 2020	<u>8,305</u>	<u>3,239</u>	<u>4,975</u>	<u>–</u>	<u>16,519</u>

(d) Interest rate risk

VMHK Group's exposure to interest-rate risk mainly arises from its bank deposits and bank loans. Bank deposits and bank loans bear interests at variable rates varied with the then prevailing market condition.

The effect of changes in interest rates is not significant to the Historical Financial Information. Except as stated above, VMHK Group has no other significant interest-bearing assets and liabilities, VMHK Group's income and operating cash flows are substantially independent of changes in market interest rates.

(e) Categories of financial instruments

	As at 31 December			As at 30 June
	2017	2018	2019	2020
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Financial assets:				
Financial assets at amortised cost	–	194,043	226,617	300,366
Loans and receivables (including cash and cash equivalents)	171,446	–	–	–
Financial assets measured at FVTOCI – equity investment	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>
Financial liabilities:				
Financial liabilities at amortised cost	<u>53,283</u>	<u>57,912</u>	<u>79,092</u>	<u>213,318</u>

(f) Fair values

The carrying amount of VMHK Group's financial assets and financial liabilities as reflected in the consolidated statement of financial position approximate their respective fair values.

7. REVENUE

VMHK Group's revenue is derived from contracts with customers.

In the following table, revenue is disaggregated by product category, geographical market and timing of revenue recognition.

By product category

	Year ended 31 December			Six months ended 30 June	
	2017 <i>HK\$'000</i>	2018 <i>HK\$'000</i>	2019 <i>HK\$'000</i>	2019 <i>HK\$'000</i> (unaudited)	2020 <i>HK\$'000</i>
OEM					
Respiratory products	87,002	95,664	97,815	50,525	115,751
Imaging disposable products	165,748	170,548	157,149	76,752	83,602
Orthopaedic and rehabilitation products	1,196	–	–	–	–
Other products	46,912	53,363	49,606	23,164	34,013
	<u>300,858</u>	<u>319,575</u>	<u>304,570</u>	<u>150,441</u>	<u>233,366</u>
OBM					
Respiratory products	57,851	67,482	83,999	39,777	145,000
Orthopaedic and rehabilitation products	2,124	630	584	94	1,168
	<u>59,975</u>	<u>68,112</u>	<u>84,583</u>	<u>39,871</u>	<u>146,168</u>
Total					
Respiratory products	144,853	163,146	181,814	90,302	260,751
Imaging disposable products	165,748	170,548	157,149	76,752	83,602
Orthopaedic and rehabilitation products	3,320	630	584	94	1,168
Other products	46,912	53,363	49,606	23,164	34,013
	<u>360,833</u>	<u>387,687</u>	<u>389,153</u>	<u>190,312</u>	<u>379,534</u>

By geographical market

	Year ended 31 December			Six months ended 30 June	
	2017 HK\$'000	2018 HK\$'000	2019 HK\$'000	2019 HK\$'000 (unaudited)	2020 HK\$'000
OEM					
The United States	255,926	249,908	250,056	118,696	184,199
The Netherlands	16,611	27,599	15,386	7,516	11,761
Australia	14,678	25,363	18,186	12,056	5,807
Japan	11,765	12,623	13,856	9,408	8,370
Others	1,878	4,082	7,086	2,765	23,229
	<u>300,858</u>	<u>319,575</u>	<u>304,570</u>	<u>150,441</u>	<u>233,366</u>
OBM					
The United States	2,518	7,810	4,044	2,789	2,187
The People's Republic of China (the "PRC")	31,493	33,148	46,431	19,628	86,436
Australia	975	1,001	549	546	–
Japan	1,914	2,211	2,662	1,201	–
Others	23,075	23,942	30,897	15,707	57,545
	<u>59,975</u>	<u>68,112</u>	<u>84,583</u>	<u>39,871</u>	<u>146,168</u>
Total					
The United States	258,444	257,718	254,100	121,485	186,386
The PRC	31,493	33,148	46,431	19,628	86,436
The Netherlands	16,611	27,599	15,386	7,516	11,761
Australia	15,653	26,364	18,735	12,602	5,807
Japan	13,679	14,834	16,518	10,609	8,370
Others	24,953	28,024	37,983	18,472	80,774
	<u>360,833</u>	<u>387,687</u>	<u>389,153</u>	<u>190,312</u>	<u>379,534</u>

By timing of revenue recognition

	Year ended 31 December			Six months ended 30 June	
	2017 HK\$'000	2018 HK\$'000	2019 HK\$'000	2019 HK\$'000 (unaudited)	2020 HK\$'000
OEM					
Products transferred at a point in time	300,858	149,027	147,421	73,689	149,764
Products transferred over time	–	170,548	157,149	76,752	83,602
	<u>300,858</u>	<u>319,575</u>	<u>304,570</u>	<u>150,441</u>	<u>233,366</u>
OBM					
Products transferred at a point in time	59,975	68,112	84,583	39,871	146,168
	<u>59,975</u>	<u>68,112</u>	<u>84,583</u>	<u>39,871</u>	<u>146,168</u>
Total					
Products transferred at a point in time	360,833	217,139	232,004	113,560	295,932
Products transferred over time	–	170,548	157,149	76,752	83,602
	<u>360,833</u>	<u>387,687</u>	<u>389,153</u>	<u>190,312</u>	<u>379,534</u>

VMHK Group has initially applied HKFRS 15 using the cumulative effect method from 1 January 2018. Under this method, the information for the year ended 31 December 2017 is not restated and was prepared in accordance with HKAS 18.

The following table provides information about receivables and contract assets from contracts with customers:

	As at 1 January	As at 31 December		As at 30 June
	2018 HK\$'000	2018 HK\$'000	2019 HK\$'000	2020 HK\$'000
Receivables, which included in “trade receivables”	92,676	84,803	81,616	116,630
Contract assets	<u>17,822</u>	<u>17,177</u>	<u>12,991</u>	<u>9,397</u>

Contract assets primarily consist of unbilled amount resulting from sales of OEM products transferred over time. Contract assets are transferred to receivables when the rights become unconditional. This usually occurs when VMHK Group issues an invoice to the customer.

There were no significant changes in the contract assets balances during the years ended 31 December 2018 and 2019 and the six months ended 30 June 2020.

8. OTHER INCOME, OTHER GAINS AND LOSSES

	Year ended 31 December			Six months ended 30 June	
	2017 HK\$'000	2018 HK\$'000	2019 HK\$'000	2019 HK\$'000 (unaudited)	2020 HK\$'000
Other income					
Interest income – bank deposits	31	133	43	24	15
Interest income – other receivables	–	–	270	–	–
Government subsidies (<i>Note</i>)	–	–	–	–	1,484
Management service income	–	–	–	–	500
Royalty income	–	–	250	–	1,456
Sundry income	513	816	986	495	1,694
	<u>544</u>	<u>949</u>	<u>1,549</u>	<u>519</u>	<u>5,149</u>
Other gains and losses					
Exchange loss, net	(2,865)	(1,024)	(508)	(1,193)	(800)
Impairment of investment in an associate	(11,629)	–	–	–	–
Impairment of trade receivables	–	(163)	(52)	–	–
Write back of other payables	–	3,859	–	–	–
Write off of property, plant and equipment	(543)	(35)	(36)	(22)	(120)
Write off of trade receivables	–	(72)	–	–	–
	<u>(15,037)</u>	<u>2,565</u>	<u>(596)</u>	<u>(1,215)</u>	<u>(920)</u>
Total	<u>(14,493)</u>	<u>3,514</u>	<u>953</u>	<u>(696)</u>	<u>4,229</u>

Note:

Government subsidies mainly related to the subsidies of approximately HK\$602,000 received from the local government authority for the achievements accomplished by VMHK Group, and approximately HK\$882,000 of wage subsidies provided to employers under the Employment Support Scheme of the Hong Kong Special Administrative Region Government.

9. 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 VMHK Group that makes strategic and operating decisions.

Directors of VMHK Group review the internal reporting of VMHK Group in order to assess performance and allocate resources. From business model perspective, management assesses the performance of two operating segments, which are OEM and OBM.

- OEM represents “original equipment manufacturing”, whereby products are manufactured in accordance with the customer’s specification for sale under the customer’s or third party’s brand.
- OBM represents “original brand manufacturing”, comprises research, development, manufacturing, marketing and sales of medical devices under “inspiredTM” brand.

The accounting policies of the operating segments are the same as those described in Note 4 to the Historical Financial Information. Segment profits or losses do not include interest income, interest expenses, share of loss of an associate, write back of other payables, impairment of investment in an associate, corporate income and corporate expenses.

Segment assets and liabilities of VMHK Group are not reported to the directors of VMHK Group regularly. As a result, reportable segment assets and liabilities have not been presented in the Historical Financial Information.

Information about reportable segment profit or loss:

	OEM	OBM	Total
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Year ended 31 December 2017			
Revenue from external customers	300,858	59,975	360,833
Segment profit/(loss)	<u>46,969</u>	<u>(12,698)</u>	<u>34,271</u>
Year ended 31 December 2018			
Revenue from external customers	319,575	68,112	387,687
Segment profit/(loss)	51,626	(11,313)	40,313
Impairment of trade receivables	(163)	–	(163)
Write off of trade receivables	<u>(72)</u>	<u>–</u>	<u>(72)</u>

	OEM <i>HK\$'000</i>	OBM <i>HK\$'000</i>	Total <i>HK\$'000</i>
Year ended 31 December 2019			
Revenue from external customers	304,570	84,583	389,153
Segment profit/(loss)	39,574	(5,843)	33,731
Impairment of trade receivables	<u>(52)</u>	<u>–</u>	<u>(52)</u>
Six months ended 30 June 2020			
Revenue from external customers	233,366	146,168	379,534
Segment profit	<u>53,066</u>	<u>32,893</u>	<u>85,959</u>
Six months ended 30 June 2019 (unaudited)			
Revenue from external customers	150,441	39,871	190,312
Segment profit	<u>17,546</u>	<u>795</u>	<u>18,341</u>

Reconciliation of reportable segment revenue and profit or loss:

	Year ended 31 December			Six months ended 30 June	
	2017 HK\$'000	2018 HK\$'000	2019 HK\$'000	2019 HK\$'000 (unaudited)	2020 HK\$'000
Revenue					
Total revenue of reportable segments	<u>360,833</u>	<u>387,687</u>	<u>389,153</u>	<u>190,312</u>	<u>379,534</u>
Profit or loss					
Total profit or loss of reportable segments	34,271	40,313	33,731	18,341	85,959
Interest income	31	133	43	24	15
Interest expenses	(2)	(140)	(1,613)	(788)	(932)
Share of loss of an associate	(25)	-	-	-	-
Write back of other payables	-	3,859	-	-	-
Impairment of investment in an associate	(11,629)	-	-	-	-
Corporate income	3,378	815	1,256	494	3,296
Corporate expenses	<u>(865)</u>	<u>(1,237)</u>	<u>(2)</u>	<u>(1)</u>	<u>(2,930)</u>
Consolidated profit before tax	<u>25,159</u>	<u>43,743</u>	<u>33,415</u>	<u>18,070</u>	<u>85,408</u>

Geographical information:

VMHK 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			Six months ended 30 June	
	2017 HK\$'000	2018 HK\$'000	2019 HK\$'000	2019 HK\$'000 (unaudited)	2020 HK\$'000
The United States	258,444	257,718	254,100	121,485	186,386
The PRC	31,493	33,148	46,431	19,628	86,436
The Netherlands	16,611	27,599	15,386	7,516	11,761
Australia	15,653	26,364	18,735	12,602	5,807
Japan	13,679	14,834	16,518	10,609	8,370
Hong Kong	2,261	771	13,438	2,676	49,630
Israel	1,976	4,843	4,849	3,146	18,655
Others	<u>20,716</u>	<u>22,410</u>	<u>19,696</u>	<u>12,650</u>	<u>12,489</u>
	<u>360,833</u>	<u>387,687</u>	<u>389,153</u>	<u>190,312</u>	<u>379,534</u>

	Non-current assets			
	As at 31 December			As at 30 June
	2017 HK\$'000	2018 HK\$'000	2019 HK\$'000	2020 HK\$'000
Hong Kong	523	363	1,207	1,013
The PRC	40,799	40,868	67,056	77,640
	<u>41,322</u>	<u>41,231</u>	<u>68,263</u>	<u>78,653</u>

Revenue from major customers:

	Year ended 31 December			Six months ended 30 June	
	2017 HK\$'000	2018 HK\$'000	2019 HK\$'000	2019 HK\$'000	2020 HK\$'000
	(unaudited)				
OEM segment					
Customer A	169,032	176,334	163,403	78,694	91,034
Customer B	75,855	89,146	78,235	37,624	39,899
Customer C	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>54,877</u>

10. FINANCE COSTS

	Year ended 31 December			Six months ended 30 June	
	2017 HK\$'000	2018 HK\$'000	2019 HK\$'000	2019 HK\$'000	2020 HK\$'000
	(unaudited)				
Interest expenses on lease liabilities (Note 18)	-	-	1,142	633	430
Interest on bank loans	<u>2</u>	<u>140</u>	<u>471</u>	<u>155</u>	<u>502</u>
	<u>2</u>	<u>140</u>	<u>1,613</u>	<u>788</u>	<u>932</u>

11. INCOME TAX EXPENSE

	Year ended 31 December			Six months ended 30 June	
	2017 HK\$'000	2018 HK\$'000	2019 HK\$'000	2019 HK\$'000 (unaudited)	2020 HK\$'000
Current tax – Hong Kong Profits Tax					
Provision for the year/period	2,792	3,252	1,370	1,218	5,261
Under/(over)-provision in prior years	<u>6</u>	<u>–</u>	<u>(30)</u>	<u>–</u>	<u>–</u>
	<u>2,798</u>	<u>3,252</u>	<u>1,340</u>	<u>1,218</u>	<u>5,261</u>
Current tax - the PRC					
Provision for the year/period	746	185	–	–	7,095
Under/(over)-provision in prior years	<u>21</u>	<u>(475)</u>	<u>30</u>	<u>–</u>	<u>–</u>
	<u>767</u>	<u>(290)</u>	<u>30</u>	<u>–</u>	<u>7,095</u>
Deferred tax (<i>Note 30</i>)	<u>–</u>	<u>1,065</u>	<u>961</u>	<u>660</u>	<u>342</u>
Income tax expense	<u><u>3,565</u></u>	<u><u>4,027</u></u>	<u><u>2,331</u></u>	<u><u>1,878</u></u>	<u><u>12,698</u></u>

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

On 21 March 2018, the Inland Revenue (Amendment) (No. 7) Bill 2017, which introduces a two-tiered profits tax regime, was substantively enacted. Under the two-tiered profits tax regime, profits tax rate for the first HK\$2.0 million of assessable profits of the qualifying corporation established in Hong Kong will be lowered to 8.25%, and profits above that amount will be subject to the tax rate of 16.5%. For the other Hong Kong established subsidiaries, Hong Kong Profits Tax has been provided at a rate of 16.5% on the estimated assessable profits for the years ended 31 December 2018 and 2019 and the six months ended 30 June 2019 (unaudited) and 2020.

Under the Corporate Income Tax Law of the PRC which became effective from 1 January 2008, the standard corporate income tax rate is 25%. VMHK Group's PRC subsidiary, VMDG, is qualified as High and New Tech Enterprise and would be entitled to a reduced corporate income tax rate of 15% for the years ended 31 December 2017, 2018 and 2019 and the six months ended 30 June 2019 (unaudited) and 2020.

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

	Year ended 31 December			Six months ended 30 June	
	2017 HK\$'000	2018 HK\$'000	2019 HK\$'000	2019 HK\$'000 (unaudited)	2020 HK\$'000
Profit before tax	25,159	43,743	33,415	18,070	85,408
Tax at Hong Kong Profits Tax rate of 16.5%	4,151	7,218	5,513	2,982	14,092
Tax effect of share of loss of an associate	4	-	-	-	-
Tax effect of income that is not taxable	(18,735)	(21,001)	(19,051)	(9,800)	(14,638)
Tax effect of expenses that are not deductible	18,376	19,246	18,489	9,544	14,938
Tax effect of temporary differences not recognised	(286)	(153)	18	3	14
Tax effect of tax losses not recognised	94	75	-	-	3
Tax effect of utilisation of tax losses not previously recognised	-	-	(69)	(35)	-
Tax effect of change of tax rate	-	(165)	(165)	(165)	(165)
Effect of different tax rates of subsidiaries	(66)	(163)	(283)	(95)	(802)
Tax concession	-	(502)	(1,423)	(431)	(506)
Others	-	(53)	(698)	(125)	(238)
Under/(over)-provision in prior years	27	(475)	-	-	-
Income tax expense	<u>3,565</u>	<u>4,027</u>	<u>2,331</u>	<u>1,878</u>	<u>12,698</u>

12. PROFIT FOR THE YEAR/PERIOD

VMHK Group's profit for the Relevant Period is stated after charging/(crediting) the following:

	Year ended 31 December			Six months ended 30 June	
	2017 HK\$'000	2018 HK\$'000	2019 HK\$'000	2019 HK\$'000 (unaudited)	2020 HK\$'000
Allowance/(reversal of allowance) for inventories (included in cost of inventories sold)	-	1,851	(493)	-	5,840
Auditor's remuneration	735	820	740	411	370
Cost of inventories sold	254,288	277,283	284,438	134,415	251,368
Depreciation of property, plant and equipment	9,317	10,221	10,777	5,563	5,336
Depreciation of right-of-use assets	-	-	6,967	3,543	3,965
Exchange loss, net (included in other gains and losses)	2,865	1,024	508	1,193	800
Impairment of investment in an associate (included in other gains and losses)	11,629	-	-	-	-
Impairment of trade receivables (included in other gains and losses)	-	163	52	-	-
Operating leases charges – land and buildings	5,909	6,485	-	-	-
Research and development expenditure	14,020	18,017	17,530	7,424	7,383
Write back of other payables (included in other gains and losses)	-	(3,859)	-	-	-
Write off of inventories (included in cost of inventories sold)	-	-	2,300	-	-
Write off of property, plant and equipment (included in other gains and losses)	543	35	36	22	120
Write off of trade receivables (included in other gains and losses)	-	72	-	-	-
	<u>-</u>	<u>72</u>	<u>-</u>	<u>-</u>	<u>-</u>

Cost of inventories sold include staff costs of approximately HK\$51,074,000, HK\$58,102,000, HK\$66,604,000, HK\$32,897,000 and HK\$49,317,000, depreciation of property, plant and equipment of approximately HK\$7,082,000, HK\$8,222,000, HK\$8,677,000, HK\$4,431,000 and HK\$4,286,000, depreciation of right-of-use assets of approximately HK\$Nil, HK\$Nil, HK\$4,314,000, HK\$2,196,000 and HK\$2,669,000, and operating lease charges of approximately HK\$3,788,000, HK\$4,341,000, HK\$Nil, HK\$Nil and HK\$Nil, which are included in the amounts disclosed separately for the years ended 31 December 2017, 2018 and 2019 and the six months ended 30 June 2019 (unaudited) and 2020 respectively.

Research and development expenditure include staff costs of approximately HK\$3,332,000, HK\$4,432,000, HK\$5,608,000, HK\$2,332,000 and HK\$1,701,000, and depreciation of property, plant and equipment of approximately HK\$425,000, HK\$172,000, HK\$138,000, HK\$70,000 and HK\$60,000, which are included in the amounts disclosed separately for the years ended 31 December 2017, 2018 and 2019 and the six months ended 30 June 2019 (unaudited) and 2020 respectively.

13. EMPLOYEE BENEFITS EXPENSE

	Year ended 31 December			Six months ended	
	2017	2018	2019	2019	2020
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
				(unaudited)	
Salaries, bonuses and allowances	68,823	75,979	86,815	43,720	70,566
Retirement benefits scheme contributions	4,682	4,983	5,354	2,739	564
Other benefits	4,329	5,106	5,524	2,840	3,543
	<u>77,834</u>	<u>86,068</u>	<u>97,693</u>	<u>49,299</u>	<u>74,673</u>

(a) Pensions – defined contribution plans

Contributions of approximately HK\$171,000, HK\$179,000, HK\$157,000 and HK\$Nil respectively were payable to the fund at 31 December 2017, 2018 and 2019 and 30 June 2020 respectively. The amount of forfeited contributions utilised for the years ended 31 December 2017, 2018 and 2019 and the six months ended 30 June 2019 (unaudited) and 2020 was approximately HK\$13,000, HK\$69,000, HK\$208,000, HK\$Nil and HK\$Nil respectively.

(b) Five highest paid individuals

The five highest paid individuals in VMHK Group during the years ended 31 December 2017, 2018 and 2019 and the six months ended 30 June 2019 (unaudited) and 2020 included two, two, two, two and two directors respectively whose emoluments are reflected in the analysis presented in Note 14(a) to the Historical Financial Information.

The emoluments of the remaining three, three, three, three and three individuals during the years ended 31 December 2017, 2018 and 2019 and the six months ended 30 June 2019 (unaudited) and 2020 was as follows:

	Year ended 31 December			Six months ended 30 June	
	2017 HK\$'000	2018 HK\$'000	2019 HK\$'000	2019 HK\$'000 (unaudited)	2020 HK\$'000
Salaries, bonuses and allowances	3,020	2,992	3,622	1,723	2,928
Retirement benefits scheme contributions	122	139	146	72	81
	<u>3,142</u>	<u>3,131</u>	<u>3,768</u>	<u>1,795</u>	<u>3,009</u>

The emoluments fell within the following band:

	Year ended 31 December			Six months ended 30 June	
	2017	2018	2019	2019 (unaudited)	2020
Nil to HK\$1,000,000	1	1	-	3	1
HK\$1,000,001 to HK\$1,500,000	<u>2</u>	<u>2</u>	<u>3</u>	<u>-</u>	<u>2</u>

During the years ended 31 December 2017, 2018 and 2019 and the six months ended 30 June 2019 (unaudited) and 2020, no emoluments were paid by VMHK Group to any of the five highest paid individuals as an inducement to join or upon joining VMHK Group or as compensation for loss of office.

14. BENEFITS AND INTERESTS OF DIRECTORS

(a) Directors' emoluments

Name of director	Emoluments paid or receivable in respect of a person's services as a director, whether of VMHK or its subsidiary undertaking		Discretionary bonus HK\$'000	(Note) Estimated money value of other benefits HK\$'000	Employer's contribution to a retirement benefit scheme HK\$'000	Remunerations paid or receivable in respect of office as director HK\$'000	Housing allowance HK\$'000	Emoluments paid or receivable in respect of director's other services in connection with the management of the affairs of VMHK or its subsidiary undertaking HK\$'000	Total HK\$'000
	Fees HK\$'000	Salaries HK\$'000							
Mr. CHOI Man Shing	-	1,123	166	-	104	-	-	-	1,393
Ms. LIU Pui Ching	-	-	-	-	-	-	-	-	-
Mr. TO Ki Cheung	-	1,260	93	-	58	-	-	-	1,411
Mr. OWOC Jeffrey Martin	-	-	-	-	-	-	-	-	-
Total for the year ended 31 December 2017	-	2,383	259	-	162	-	-	-	2,804
Mr. CHOI Man Shing	-	1,140	-	-	105	-	-	-	1,245
Ms. LIU Pui Ching	-	-	-	-	-	-	-	-	-
Mr. TO Ki Cheung	-	1,307	-	-	61	-	-	-	1,368
Mr. OWOC Jeffrey Martin	-	-	-	-	-	-	-	-	-
Total for the year ended 31 December 2018	-	2,447	-	-	166	-	-	-	2,613

Name of director	Fees		Discretionary bonus	Estimated money value of other benefits	Employer's contribution to a retirement benefit scheme	Remunerations payable in respect of office as director	Housing allowance	Emoluments paid or receivable in respect of director's other services in connection with the management of the affairs of VMHK or its subsidiary undertaking	Total
	HK\$'000	HK\$'000							
Mr. CHOI Man Shing	-	1,146	137	-	106	-	-	-	1,389
Ms. LIU Pui Ching	-	-	-	-	-	-	-	-	-
Mr. TO Ki Cheung	-	1,363	159	-	63	-	-	-	1,585
Mr. OWOC Jeffrey Martin	-	-	-	-	-	-	-	-	-
Total for the year ended 31 December 2019	-	2,509	296	-	169	-	-	-	2,974
Mr. CHOI Man Shing	-	646	215	-	53	-	-	-	914
Ms. LIU Pui Ching	-	-	-	-	-	-	-	-	-
Mr. TO Ki Cheung	-	687	229	-	33	-	-	-	949
Mr. OWOC Jeffrey Martin	-	-	-	-	-	-	-	-	-
Total for the six months ended 30 June 2020	-	1,333	444	-	86	-	-	-	1,863

Name of director	Emoluments paid or receivable in respect of a person's services as a director, whether of VMHK or its subsidiary undertaking		Fees HK\$'000	Salaries HK\$'000	Discretionary bonus HK\$'000	(Note) Estimated money value of other benefits HK\$'000	Employer's contribution to a retirement benefit scheme HK\$'000	Remunerations paid or receivable in respect of accepting office as director HK\$'000	Housing allowance HK\$'000	Emoluments paid or receivable in respect of director's other services in connection with the management of the affairs of VMHK or its subsidiary undertaking HK\$'000	Total HK\$'000
Mr. CHOI Man Shing	-	-	-	616	-	-	53	-	-	-	669
Ms. LIU Pui Ching	-	-	-	-	-	-	-	-	-	-	-
Mr. TO Ki Cheung	-	-	-	725	-	-	31	-	-	-	756
Mr. OWOC Jeffrey Martin	-	-	-	-	-	-	-	-	-	-	-
Total for the six months ended 30 June 2019 (unaudited)	-	-	-	1,341	-	-	84	-	-	-	1,425

Note:

Estimated money values of other benefits include rent paid, share options, insurance premium, etc.

Neither the chief executive nor any of the directors waived any emoluments during the years ended 31 December 2017, 2018 and 2019 and the six months ended 30 June 2019 (unaudited) and 2020.

During the years ended 31 December 2017, 2018 and 2019 and the six months ended 30 June 2019 (unaudited) and 2020, no emoluments were paid by VMHK Group to any of the directors as an inducement to join or upon joining VMHK Group or as compensation for loss of office.

(b) Directors' material interests in transactions, arrangement or contracts

During the years ended 31 December 2017, 2018 and 2019 and the six months ended 30 June 2019 (unaudited) and 2020, VMHK Group entered into the following transactions:

Name of parties contracted with	Nature of transactions	Amount					Interested directors
		Year ended 31 December			Six months ended 30 June		
		2017 HK\$'000	2018 HK\$'000	2019 HK\$'000	2019 HK\$'000 (unaudited)	2020 HK\$'000	
Vincent Raya (Dongguan) Electronics Co., Ltd. 永勝(東莞)電子 有限公司	Catering service fee	1,027	1,058	1,020	520	595	Mr. CHOI Man Shing and Ms. LIU Pui Ching have beneficial interests in the contracting party
	Rental expenses	5,439	6,130	8,120	4,134	4,073	
	Metal supplies and processing service fee	1,181	2,517	3,503	1,300	3,688	
	Electronic assembly service fee	-	-	-	-	5,755	
Vincent Raya Development Limited	Rental expenses	456	456	504	252	252	Mr. CHOI Man Shing and Ms. LIU Pui Ching have beneficial interests in the contracting party

15. DIVIDEND

	Year ended 31 December			Six months ended 30 June	
	2017 HK\$'000	2018 HK\$'000	2019 HK\$'000	2019 HK\$'000 (unaudited)	2020 HK\$'000
2017 interim dividend of HK\$1.62 per ordinary share	14,000	-	-	-	-

16. EARNINGS PER SHARE

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

	Year ended 31 December			Six months ended 30 June	
	2017 HK\$'000	2018 HK\$'000	2019 HK\$'000	2019 HK\$'000 (unaudited)	2020 HK\$'000
Earnings					
Profit attributable to owners of VMHK	21,614	39,720	31,084	16,192	72,710
	'000	'000	'000	'000 (unaudited)	'000
Number of shares					
Weighted average number of ordinary shares for the purpose of calculating basic earnings per share	8,637	8,637	8,637	8,637	8,637
Effect of dilutive potential ordinary shares arising from share options issued by VMHK (<i>Note</i>)	n/a	n/a	n/a	n/a	n/a
Weighted average number of ordinary shares for the purpose of calculating diluted earnings per share	n/a	n/a	n/a	n/a	n/a

Note:

No diluted earnings per share are presented as VMHK did not have any dilutive ordinary shares during the years ended 31 December 2017, 2018 and 2019 and the six months ended 30 June 2019 (unaudited) and 2020.

17. PROPERTY, PLANT AND EQUIPMENT

	Furniture and fixtures	Plant and machinery	Leasehold improvements	Moulds	Motor vehicles	Construction in progress	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Cost							
At 1 January 2017	10,164	39,933	23,348	23,930	1,372	830	99,577
Additions	832	6,242	—	2,166	244	2,523	12,007
Write off	(624)	(64)	(95)	(12)	—	(292)	(1,087)
Transfer	—	—	2,034	320	—	(2,354)	—
Exchange differences	585	3,097	1,706	1,761	72	52	7,273
At 31 December 2017 and 1 January 2018	10,957	49,208	26,993	28,165	1,688	759	117,770
Additions	384	4,953	—	1,309	1,078	4,376	12,100
Write off	(19)	—	—	—	—	(33)	(52)
Transfer	—	—	2,766	—	—	(2,766)	—
Exchange differences	(422)	(2,408)	(1,307)	(1,311)	(85)	(81)	(5,614)
At 31 December 2018 and 1 January 2019	10,900	51,753	28,452	28,163	2,681	2,255	124,204
Additions	913	10,678	271	5,376	—	7,991	25,229
Write off	(45)	(350)	—	—	—	—	(395)
Transfer	—	3,294	5,993	87	—	(9,374)	—
Exchange differences	(206)	(1,342)	(711)	(689)	(48)	(28)	(3,024)
At 31 December 2019 and 1 January 2020	11,562	64,033	34,005	32,937	2,633	844	146,014
Additions	1,084	12,645	109	710	152	4,197	18,897
Write off	(25)	(1,188)	—	—	—	—	(1,213)
Transfer	—	—	1,265	27	—	(1,292)	—
Exchange differences	(189)	(1,311)	(658)	(630)	(42)	(35)	(2,865)
At 30 June 2020	12,432	74,179	34,721	33,044	2,743	3,714	160,833
Accumulated depreciation							
At 1 January 2017	6,975	24,361	19,313	11,733	650	—	63,032
Charge for the year	1,117	4,623	1,771	1,526	280	—	9,317
Write off	(446)	(41)	(46)	(11)	—	—	(544)
Exchange differences	398	1,927	1,413	860	45	—	4,643
At 31 December 2017 and 1 January 2018	8,044	30,870	22,451	14,108	975	—	76,448
Charge for the year	984	5,283	1,911	1,633	410	—	10,221
Write off	(17)	—	—	—	—	—	(17)
Exchange differences	(314)	(1,574)	(1,073)	(674)	(44)	—	(3,679)
At 31 December 2018 and 1 January 2019	8,697	34,579	23,289	15,067	1,341	—	82,973
Charge for the year	938	5,157	2,263	2,042	377	—	10,777
Write off	(41)	(318)	—	—	—	—	(359)
Exchange differences	(163)	(830)	(537)	(349)	(27)	—	(1,906)

	Furniture and fixtures	Plant and machinery	Leasehold improvements	Moulds	Motor vehicles	Construction in progress	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 31 December 2019 and 1 January 2020	9,431	38,588	25,015	16,760	1,691	—	91,485
Charge for the period	539	2,424	1,284	921	168	—	5,336
Write off	(24)	(1,069)	—	—	—	—	(1,093)
Exchange differences	(149)	(752)	(484)	(319)	(25)	—	(1,729)
At 30 June 2020	9,797	39,191	25,815	17,362	1,834	—	93,999
Carrying amount							
At 31 December 2017	2,913	18,338	4,542	14,057	713	759	41,322
At 31 December 2018	2,203	17,174	5,163	13,096	1,340	2,255	41,231
At 31 December 2019	2,131	25,445	8,990	16,177	942	844	54,529
At 30 June 2020	2,635	34,988	8,906	15,682	909	3,714	66,834

During the year ended 31 December 2019, VMHK Group changed the estimated useful lives of certain plant and machinery purchased during the year ended 31 December 2019 from 5 years to 10 years. As a result of this change in accounting estimate, the depreciation charge decreased by approximately HK\$470,000 for the year ended 31 December 2019, will decrease by approximately HK\$1,397,000 for each of the following 4 years, and also will increase by approximately HK\$1,397,000 for each of the next following 5 years.

18. RIGHT-OF-USE ASSETS

	Leased properties
	<i>HK\$'000</i>
At 1 January 2017, 31 December 2017, 1 January 2018 and 31 December 2018	—
Adoption of HKFRS 16 (<i>Note 3</i>)	<u>21,029</u>
At 1 January 2019	21,029
Depreciation	(6,967)
Exchange differences	<u>(328)</u>
At 31 December 2019 and 1 January 2020	13,734
Additions	2,288
Depreciation	(3,965)
Exchange differences	<u>(238)</u>
At 30 June 2020	<u>11,819</u>

Lease liabilities of approximately HK\$Nil, HK\$Nil, HK\$14,164,000 and HK\$12,311,000 are recognised with related right-of-use assets of approximately HK\$Nil, HK\$Nil, HK\$13,734,000 and HK\$11,819,000 as at 31 December 2017, 2018 and 2019 and 30 June 2020 respectively.

	Year ended 31 December			Six months ended 30 June	
	2017 HK\$'000	2018 HK\$'000	2019 HK\$'000	2019 HK\$'000 (unaudited)	2020 HK\$'000
Depreciation expenses on right-of-use assets	-	-	6,967	3,543	3,965
Interest expense on lease liabilities (included in finance costs)	-	-	1,142	633	430
Expenses relating to short-term lease (included in cost of inventories sold)	-	-	964	491	-
	<u>-</u>	<u>-</u>	<u>964</u>	<u>491</u>	<u>-</u>

Detail of total cash outflow for leases is set out in Note 33(b).

For the years ended 31 December 2017, 2018 and 2019 and the six months ended 30 June 2019 (unaudited) and 2020, VMHK Group leases various offices and factory premises for its operations. Lease contracts are entered into for fixed term of 1 year to 3 years. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. In determining the lease term and assessing the length of the non-cancellable period, VMHK Group applies the definition of a contract and determines the period for which the contract is enforceable.

19. EQUITY INVESTMENT AT FVTOCI (AT 31 DECEMBER 2017: INVESTMENT IN AN ASSOCIATE)

	As at 31 December 2017 HK\$'000
Unlisted investments:	
Share of net assets	-
Goodwill	-
	<u>-</u>

Details of VMHK Group's associate as at 31 December 2017 are as follows:

<u>Name</u>	<u>Place of incorporation and operation</u>	<u>Particulars of issued and paid up capital</u>	<u>Percentage of ownership interest/voting power/profit sharing</u>	<u>Principal activities</u>
			At 31 December 2017	
Ventific Holdings Pty Ltd ("Ventific") (Note)	Australia	54,720,000 ordinary shares of Australian dollar 0.1827 each	20%	Design, development and distribution of obstructive sleep apnea treatment devices and accessories

Note:

During the year ended 31 December 2018, VMHK Group reclassified its investment in Ventific as equity investment at FVTOCI as VMHK Group did not have significant influence in Ventific.

	<u>As at 31 December</u>		<u>As at 30 June</u>
	2018	2019	2020
	HK\$'000	HK\$'000	HK\$'000
Unlisted equity securities	—	—	—
Analysed as:			
Non-current assets	—	—	—

At 31 December 2018 and 2019 and 30 June 2020, the unlisted equity securities were measured at fair value using the best estimation by the directors.

20. INVESTMENTS IN SUBSIDIARIES

Particulars of the subsidiaries are as follows:

Name	Place of incorporation and operation	Issued share capital/ Registered capital	Percentage of ownership interest/voting power/ profit sharing				Principal activities
			As at 31 December		As at 30 June		
			2017	2018	2019	2020	
VMDG*	The PRC	HK\$15,000,000	100% (Note a)	100% (Note a)	100% (Note a)	100% (Note a)	Manufacturing of medical devices
Vincent Medical Technology Company Limited	Hong Kong	HK\$1	100%	100%	100%	100%	Inactive
Vincent Medical R&D Limited	Hong Kong	HK\$10	60% (Note b)	100% (Note b)	100% (Note b)	100% (Note b)	Inactive
Vincent Medical Care Company Limited	Hong Kong	HK\$1	100%	100%	100%	100%	Trading of medical devices and investment holding

* The subsidiary is a wholly-foreign owned enterprise established in the PRC.

Notes:

- According to the shareholders' agreement effected on 1 March 2004, the minority shareholder surrendered its right to its share of the net assets and future dividend of VMDG. As a result, VMHK is entitled to 100% of the net assets and future dividend of VMDG.
- In May 2018, VMHK Group acquired 40% non-controlling interests of Vincent Medical R&D Limited at a cash consideration of HK\$4. The adjustment on the carrying amount of non-controlling interests of approximately HK\$3,695,000 was directly recognised in equity.

21. INVENTORIES

	As at 31 December			As at 30 June
	2017	2018	2019	2020
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Raw materials	49,469	52,111	67,018	103,018
Work in progress	16,812	17,404	19,988	56,342
Finished goods	10,432	4,247	3,892	14,630
	<u>76,713</u>	<u>73,762</u>	<u>90,898</u>	<u>173,990</u>

22. TRADE RECEIVABLES

	As at 31 December			As at 30 June
	2017 HK\$'000	2018 HK\$'000	2019 HK\$'000	2020 HK\$'000
Trade receivables	92,676	84,966	81,831	116,845
Less: allowance for doubtful debts	<u>–</u>	<u>(163)</u>	<u>(215)</u>	<u>(215)</u>
	<u>92,676</u>	<u>84,803</u>	<u>81,616</u>	<u>116,630</u>

The general credit terms of VMHK Group granted to its customers range from 30 to 90 days. VMHK 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:

	As at 31 December			As at 30 June
	2017 HK\$'000	2018 HK\$'000	2019 HK\$'000	2020 HK\$'000
0 to 30 days	27,858	33,058	18,566	31,921
31 to 60 days	23,100	19,211	14,844	33,190
61 to 90 days	19,760	19,041	22,036	30,264
Over 90 days	<u>21,958</u>	<u>13,493</u>	<u>26,170</u>	<u>21,255</u>
	<u>92,676</u>	<u>84,803</u>	<u>81,616</u>	<u>116,630</u>

As of 31 December 2017, 2018 and 2019 and 30 June 2020, trade receivables of approximately HK\$39,163,000, HK\$28,262,000, HK\$28,352,000 and HK\$25,226,000 respectively were past due but not impaired. The ageing analysis of these trade receivables is as follows:

	As at 31 December			As at 30 June
	2017 HK\$'000	2018 HK\$'000	2019 HK\$'000	2020 HK\$'000
Overdue by:				
Up to 3 months	35,211	23,306	21,049	20,880
Over 3 months	<u>3,952</u>	<u>4,956</u>	<u>7,303</u>	<u>4,346</u>
	<u>39,163</u>	<u>28,262</u>	<u>28,352</u>	<u>25,226</u>

Overdue balances related to a number of independent customers that have good track record with VMHK Group. VMHK Group does not hold any collateral over these balances.

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

	As at 31 December			As at 30 June
	2017 HK\$'000	2018 HK\$'000	2019 HK\$'000	2020 HK\$'000
HKD	15	207	224	3
RMB	435	19	–	–
USD	<u>92,226</u>	<u>84,577</u>	<u>81,392</u>	<u>116,627</u>
	<u>92,676</u>	<u>84,803</u>	<u>81,616</u>	<u>116,630</u>

23. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	As at 31 December			As at 30 June
	2017 HK\$'000	2018 HK\$'000	2019 HK\$'000	2020 HK\$'000
Deposits for purchases of goods	13,825	18,370	14,058	40,240
Deposits for purchases of property, plant and equipment	10,347	12,730	10,798	19,458
Prepaid expenses	1,924	2,047	2,028	2,069
Rental and other deposits	222	86	115	95
Value-added tax and other receivables	<u>6,326</u>	<u>5,630</u>	<u>6,569</u>	<u>16,669</u>
	<u>32,644</u>	<u>38,863</u>	<u>33,568</u>	<u>78,531</u>

24. DUE FROM/(TO) INTERMEDIATE PARENT/IMMEDIATE PARENT/FELLOW SUBSIDIARIES

The amounts due are unsecured, interest-free and have no fixed terms of repayment.

25. BANK AND CASH BALANCES

The carrying amounts of VMHK Group's bank and cash balances are denominated in the following currencies:

	As at 31 December			As at 30 June
	2017 <i>HK\$'000</i>	2018 <i>HK\$'000</i>	2019 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
HKD	9,065	13,920	4,832	5,189
RMB	6,752	8,757	5,510	27,213
USD	23,862	23,915	18,500	18,035
Others	<u>38</u>	<u>3,418</u>	<u>67</u>	<u>97</u>
	<u>39,717</u>	<u>50,010</u>	<u>28,909</u>	<u>50,534</u>

As at 31 December 2017, 2018 and 2019 and 30 June 2020, the bank and cash balances of VMHK Group denominated in RMB and kept in the PRC amounted to approximately HK\$3,878,000, HK\$4,705,000, HK\$3,869,000 and HK\$26,904,000 respectively. Conversion of RMB into foreign currencies is subject to the PRC's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations.

26. TRADE PAYABLES

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

	As at 31 December			As at 30 June
	2017 <i>HK\$'000</i>	2018 <i>HK\$'000</i>	2019 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
0 to 30 days	17,636	18,714	19,385	95,277
31 to 60 days	3,865	3,612	5,253	24,090
Over 60 days	<u>11,725</u>	<u>7,027</u>	<u>10,023</u>	<u>16,329</u>
	<u>33,226</u>	<u>29,353</u>	<u>34,661</u>	<u>135,696</u>

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

	As at 31 December			As at 30 June
	2017 <i>HK\$'000</i>	2018 <i>HK\$'000</i>	2019 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
HKD	2,319	3,262	5,114	9,711
RMB	15,513	18,837	19,809	111,176
USD	15,361	6,530	9,237	14,438
Others	33	724	501	371
	<u>33,226</u>	<u>29,353</u>	<u>34,661</u>	<u>135,696</u>

27. OTHER PAYABLES AND ACCRUALS

	As at 31 December			As at 30 June
	2017 <i>HK\$'000</i>	2018 <i>HK\$'000</i>	2019 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
Accrued staff costs	12,878	11,732	12,485	28,742
Other accrued expenses	2,794	2,899	3,532	3,915
Other payables	2,728	1,591	3,544	8,759
Contract liabilities (At 31 December 2017: Receipts in advance)	4,615	901	3,169	5,115
Unpaid investment costs	<u>3,859</u>	<u>—</u>	<u>—</u>	<u>—</u>
	<u>26,874</u>	<u>17,123</u>	<u>22,730</u>	<u>46,531</u>

28. BANK LOANS

	As at 31 December			As at 30 June
	2017	2018	2019	2020
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Bank loans, secured	–	9,255	23,454	26,832

The bank loans are repayable as follows:

	As at 31 December			As at 30 June
	2017	2018	2019	2020
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Within one year	–	1,855	13,926	18,921
More than one year, but not exceeding two years	–	1,855	2,763	3,057
More than two years, but not more than five years	–	5,545	6,765	4,854
	–	9,255	23,454	26,832
Portion of bank loans that is due for repayment after one year but contain a repayment on demand clause (shown under current liabilities)	–	(7,400)	(9,528)	(7,911)
	–	1,855	13,926	18,921
Less: Amount due for settlement within 12 months (shown under current liabilities)	–	(1,855)	(13,926)	(18,921)
Amount due for settlement after 12 months	–	–	–	–

The carrying amounts of VMHK Group's bank loans are denominated in the following currencies:

	As at			As at
	31 December			30 June
	2017	2018	2019	2020
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
HKD	–	9,255	12,291	15,884
RMB	–	–	11,163	10,948
	<u>–</u>	<u>9,255</u>	<u>23,454</u>	<u>26,832</u>

The interest rate of VMHK Group's bank loans at 31 December 2018 and 2019 and 30 June 2020 was 4.12%, ranging from 4.53% to 4.80% and 1.90% to 4.80% respectively. Bank loans were arranged at floating rate, thus exposing VMHK Group to cash flows interest rate risk.

At 31 December 2018 and 2019 and 30 June 2020, bank loans of approximately HK\$9,255,000, HK\$12,291,000 and HK\$15,884,000 respectively were secured by corporate guarantee provided by the intermediate parent. At 31 December 2018 and 2019 and 30 June 2020, bank loans of HK\$Nil, HK\$11,163,000 and HK\$10,948,000 respectively were secured by corporate guarantees provided by two fellow subsidiaries.

At 31 December 2018 and 2019 and 30 June 2020, VMHK Group had HK\$30,000,000, HK\$25,000,000 and HK\$20,000,000 respectively of available undrawn borrowing facilities.

29. LEASE LIABILITIES

	Minimum lease payments				Present value of minimum lease payments			
	As at 31 December			As at 30 June	As at 31 December			As at 30 June
	2017	2018	2019	2020	2017	2018	2019	2020
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Within one year	-	-	7,561	8,649	-	-	6,857	8,087
In the second to fifth years, inclusive	-	-	7,561	4,325	-	-	7,307	4,224
After five years	-	-	-	-	-	-	-	-
	-	-	15,122	12,974	-	-	14,164	12,311
Less: Future finance charges	-	-	(958)	(663)	-	-	n/a	n/a
Present value of lease obligations	-	-	14,164	12,311	-	-	14,164	12,311
Less: Amount due for settlement within 12 months (shown under current liabilities)					-	-	(6,857)	(8,087)
Amount due for settlement after 12 months					-	-	7,307	4,224

The carrying amounts of VMHK Group's lease liabilities are denominated in the following currencies:

	As at 31 December			As at 30 June
	2017	2018	2019	2020
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
HKD	-	-	964	731
RMB	-	-	13,200	11,580
	-	-	14,164	12,311

VMHK Group has initially applied HKFRS 16 using the modified retrospective approach and adjusted the opening balances at 1 January 2019 to recognise lease liabilities relating to leases which were previously classified as operating leases under HKAS 17.

30. DEFERRED TAX LIABILITIES

The following are the deferred tax liabilities recognised by VMHK Group:

	Accelerated tax depreciation
	<i>HK\$'000</i>
At 1 January 2017, 31 December 2017 and 1 January 2018	–
Charge to profit or loss for the year (<i>Note 11</i>)	1,065
Exchange differences	<u>(31)</u>
At 31 December 2018 and 1 January 2019	1,034
Charge to profit or loss for the year (<i>Note 11</i>)	961
Exchange differences	<u>(38)</u>
At 31 December 2019 and 1 January 2020	1,957
Charge to profit or loss for the period (<i>Note 11</i>)	342
Exchange differences	<u>(39)</u>
At 30 June 2020	<u><u>2,260</u></u>

As at 31 December 2017, 2018 and 2019 and 30 June 2020, VMHK Group has unused tax losses of approximately HK\$7,189,000, HK\$7,475,000, HK\$7,055,000 and HK\$7,072,000 respectively, subject to approval of Hong Kong Inland Revenue Department, available for offset against future profits. No deferred tax asset has been recognised due to the unpredictability of future profit streams.

As at 31 December 2017, 2018 and 2019 and 30 June 2020, the aggregate amount of temporary differences associated with undistributed earnings of a subsidiary for which deferred tax liabilities have not been recognised is approximately HK\$6,558,000, HK\$7,061,000, HK\$7,955,000 and HK\$10,255,000 respectively. No liability has been recognised in respect of these differences because VMHK Group is in a position to control the timing of reversal of the temporary differences and it is probable that such differences will not reverse in the foreseeable future.

31. SHARE CAPITAL

	<u>Number of shares</u>	<u>Amount</u> <i>HK\$'000</i>
Ordinary shares, issued and fully paid		
At 31 December 2017, 2018 and 2019 and 30 June 2020	<u>8,637,491</u>	<u>14,889</u>

VMHK Group's objectives when managing capital are to safeguard VMHK Group's ability to continue as a going concern and to maximise the return to the members through the optimisation of the debt and equity balance.

VMHK Group currently does not have any specific policies and processes for managing capital.

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

32. RESERVES**(a) VMHK Group**

The amounts of VMHK Group's reserves and movements therein are presented in the consolidated statement of profit or loss and other comprehensive income and consolidated statement of changes in equity.

(b) Reserve movement of VMHK

	<u>Retained profits</u> <i>HK\$'000</i>
At 1 January 2017	121,749
Dividend paid	(14,000)
Profit for the year	<u>10,317</u>
At 31 December 2017 and 1 January 2018	118,066
Adjustment on initial application of HKFRS 15	<u>4,964</u>
Restated balance at 1 January 2018	123,030
Profit for the year	<u>27,243</u>
At 31 December 2018 and 1 January 2019	150,273
Profit for the year	<u>13,472</u>
At 31 December 2019 and 1 January 2020	163,745
Profit for the period	<u>43,789</u>
At 30 June 2020	<u><u>207,534</u></u>

(c) Nature and purpose of reserves*Foreign currency translation reserve*

The foreign currency translation reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations. The reserve is dealt with in accordance with the accounting policy set out in Note 4(c)(iii) to the Historical Financial Information.

33. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS**(a) Reconciliation of liabilities arising from financing activities**

The table below details changes in VMHK Group's liabilities arising from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are those for which cash flows were, or future cash flows will be, classified in VMHK Group's consolidated statement of cash flows as cash flows from financing activities.

	Year ended 31 December			Six months ended	
	2017	2018	2019	2019	2020
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
				(unaudited)	
Bank loans					
At 1 January	892	–	9,255	9,255	23,454
Cash flows, net	(892)	9,255	14,199	(907)	3,594
Exchange differences	–	–	–	–	(216)
At 31 December/30 June	–	9,255	23,454	8,348	26,832
Lease liabilities					
At 1 January	–	–	–	–	14,164
Impact on initial application of HKFRS 16	–	–	21,029	21,029	–
Additions	–	–	–	–	2,288
Cash flows, net	–	–	(6,530)	(3,268)	(3,895)
Exchange differences	–	–	(335)	(31)	(246)
At 31 December/30 June	–	–	14,164	17,730	12,311

(b) Total cash outflow for leases

	Year ended 31 December			Six months ended 30 June	
	2017	2018	2019	2019	2020
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
				(unaudited)	
Within operating cash flows	5,909	6,485	2,106	1,124	430
Within financing cash flows	—	—	6,530	3,268	3,895
	<u>5,909</u>	<u>6,485</u>	<u>8,636</u>	<u>4,392</u>	<u>4,325</u>

These amounts relate to the following:

	Year ended 31 December			Six months ended 30 June	
	2017	2018	2019	2019	2020
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
				(unaudited)	
Lease rental paid	<u>5,909</u>	<u>6,485</u>	<u>8,636</u>	<u>4,392</u>	<u>4,325</u>

34. CAPITAL COMMITMENTS

Capital commitments contracted for at 31 December 2017, 2018 and 2019 and 30 June 2020 but not yet incurred are as follows:

	As at 31 December			As at 30 June
	2017	2018	2019	2020
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Property, plant and equipment	<u>16,677</u>	<u>10,239</u>	<u>6,835</u>	<u>14,779</u>

35. OPERATING LEASE ARRANGEMENTS

At 31 December 2017 and 2018, the total future minimum lease payments under non-cancellable operating leases were payable as follows:

	<u>As at 31 December</u>	
	2017	2018
	<i>HK\$'000</i>	<i>HK\$'000</i>
Within one year	7,232	8,677
In the second to fifth years inclusive	<u>1,005</u>	<u>15,438</u>
	<u><u>8,237</u></u>	<u><u>24,115</u></u>

Operating lease payments represented rentals payable by VMHK Group for certain of its offices and factory premises. Leases are negotiated for an average term of three years and rentals are fixed over the lease terms and do not include contingent rentals.

At 31 December 2019, VMHK Group entered into new leases for certain offices and factory premises that are not yet commenced, with non-cancellable period of 2 years. The total future undiscounted cash flows over the non-cancellable period amounted to approximately HK\$5,171,000. At 30 June 2020, VMHK Group did not have any lease commitments.

36. RELATED PARTY TRANSACTIONS

- (a) In addition to those related party transactions and balances disclosed elsewhere in the Historical Financial Information, VMHK Group had the following transactions and balances with its related parties:

	Year ended 31 December			Six months ended 30 June	
	2017 HK\$'000	2018 HK\$'000	2019 HK\$'000	2019 HK\$'000 (unaudited)	2020 HK\$'000
Sales of goods to					
– a shareholder	154,354	151,478	145,217	78,694	91,034
– fellow subsidiaries	32,342	32,575	58,241	21,833	135,607
Purchases of goods from					
– a shareholder	3,094	782	2,964	291	524
– fellow subsidiaries	1,306	271	230	168	3,663
Catering service fee paid to a related company (Note)	1,027	1,058	1,020	520	595
Marketing service fee paid to a fellow subsidiary	5,325	3,497	278	–	841
Marketing service income from a fellow subsidiary	–	–	–	–	500
Reimbursement of expenses from a fellow subsidiary	–	–	1,472	–	2,433
Rental expenses paid to related companies (Note)	5,895	6,586	8,624	4,386	4,325
Royalty income from a fellow subsidiary	–	–	250	–	1,456
R&D service fee paid to a fellow subsidiary	–	499	–	–	–
Subleasing fee received from a fellow subsidiary	128	56	–	–	–
Subcontracting fee to a fellow subsidiary	–	–	–	–	882
Metal supplies and processing service fee to a related company (Note)	1,181	2,517	3,503	1,300	3,688
Electronic assembly service fee to a related company (Note)	–	–	–	–	5,755

	As at			As at
	31 December			30 June
	2017	2018	2019	2020
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Trade receivables from a shareholder	47,518	31,595	41,347	41,853
Trade payables to a shareholder	6,153	–	–	–
Other payables and accruals to a related company (<i>Note</i>)	109	625	2,184	5,981
	<u>47,627</u>	<u>32,220</u>	<u>43,531</u>	<u>47,834</u>

Note:

Mr. CHOI Man Shing and Ms. LIU Pui Ching, the directors of VMHK, have beneficial interests in these related companies.

- (b) The remuneration of directors and other members of key management during the Relevant Period was as follows:

	Year ended 31 December			Six months ended	
	31 December			30 June	
	2017	2018	2019	2019	2020
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
				(unaudited)	
Short-term benefits	10,023	10,484	12,858	5,753	8,348
Retirement benefits scheme contributions	475	517	541	265	253
	<u>10,498</u>	<u>11,001</u>	<u>13,399</u>	<u>6,018</u>	<u>8,601</u>

37. EVENTS AFTER THE REPORTING PERIOD

VMHK Group did not have any significant events after each of the reporting period.

38. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by VMHK Group in respect of any period subsequent to 30 June 2020.

APPENDIX III MANAGEMENT DISCUSSION AND ANALYSIS OF VMHK GROUP

Set out below is the management discussion and analysis of VMHK Group for each of the three years ended 31 December 2017, 2018 and 2019 and the six months ended 30 June 2020. All references to “FY2017”, “FY2018” and “FY2019” mean the financial years ended 31 December 2017, 2018 and 2019, respectively. All references to “1H2019” and “1H2020” means the six months ended 30 June 2019 and 2020, respectively.

REVIEW OF OPERATIONS**OEM**

The following table sets forth the revenue breakdown of VMHK Group’s OEM segment by product category:

	<u>Year ended 31 December</u>			<u>Six months ended 30 June</u>	
	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2019</u>	<u>2020</u>
	<i>HK\$’000</i>	<i>HK\$’000</i>	<i>HK\$’000</i>	<i>HK\$’000</i>	<i>HK\$’000</i>
				(unaudited)	
Respiratory products	87,002	95,664	97,815	50,525	115,751
Imaging disposable products	165,748	170,548	157,149	76,752	83,602
Orthopaedic and rehabilitation products	1,196	–	–	–	–
Other products	<u>46,912</u>	<u>53,363</u>	<u>49,606</u>	<u>23,164</u>	<u>34,013</u>
	<u>300,858</u>	<u>319,575</u>	<u>304,570</u>	<u>150,441</u>	<u>233,366</u>

Revenue for OEM segment of VMHK Group for FY2018 amounted to HK\$319.6 million, representing an increase of 6.2%, as compared to that for FY2017 of HK\$300.9 million. The increase was mainly attributable to the increase in higher sales for respiratory products as VMHK Group expanded its OEM product line to offer a broader spectrum of single use plastic disposable products to its customers.

Revenue for OEM segment of VMHK Group for FY2019 amounted to HK\$304.6 million, representing a decrease of 4.7% as compared to that for FY2018 of HK\$319.6 million. The decrease was mainly attributable to the decrease in the production and sales of imaging disposables products as a result of the temporary shortage of certain raw materials caused by quality issues of suppliers.

Revenue for OEM segment of VMHK Group for 1H2020 amounted to HK\$233.4 million, representing an increase of 55.1% as compared to that for 1H2019 of HK\$150.4 million. The increase was mainly attributable to the additional orders for the Ventec One-Circuit™ and other respiratory disposables from the Group’s major OEM customers. Imaging disposable products also recorded an 8.9% growth in revenue as the supply of certain raw materials normalised in the second quarter of 2020.

OBM

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

	<u>Year ended 31 December</u>			<u>Six months ended 30 June</u>	
	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2019</u>	<u>2020</u>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Respiratory products	57,851	67,482	83,999	39,777	145,000
Orthopaedic and rehabilitation products	<u>2,124</u>	<u>630</u>	<u>584</u>	<u>94</u>	<u>1,168</u>
	<u>59,975</u>	<u>68,112</u>	<u>84,583</u>	<u>39,871</u>	<u>146,168</u>

Revenue for OBM segment of VMHK Group for FY2018 amounted to HK\$68.1 million, representing an increase of 13.5%, as compared to that for FY2017 of HK\$60.0 million. The increase is mainly attributable to the launch of new products and higher market demand for the existing respiratory products.

Revenue for OBM segment of VMHK Group for FY2019 amounted to HK\$84.6 million, representing an increase of 24.2%, as compared to that for FY2018 of HK\$68.1 million. The increase is attributable to the expanded product offering and addressable market of its respiratory products.

Revenue for OBM segment of VMHK Group for 1H2020 amounted to HK\$146.2 million, representing an increase of 2.7 times as compared to that for 1H2019 of HK\$39.9 million. The increase is mainly attributable to the surge in global demand for respiratory devices and ventilation disposables, as well as the growth in disposals demand benefited from the increasing number of installed base of the inspired™ VHB series humidifiers and the inspired™ O2FLO high flow respiratory humidifier, a standalone nasal high-flow therapy device with dedicated disposables in the existing and new markets.

FINANCIAL REVIEW

Revenue

Revenue of VMHK Group for FY2018 increased by 7.4% as compared to that for FY2017 mainly due to the increase in revenue for both OBM and OEM respiratory products.

Revenue of VMHK Group remained relatively stable at HK\$387.7 million and HK\$389.2 million for FY2018 and FY2019, respectively, mainly due to the increase in revenue for both OBM and OEM respiratory products, offset by the decrease in revenue from the OEM imaging disposable products.

Revenue of VMHK Group for 1H2020 increased by 99.4% as compared to that for 1H2019 mainly due to the increase in revenue for OBM and OEM respiratory products.

Gross profit and gross profit margin

Gross profit of VMHK Group for FY2018 increased by 3.6% as compared to that for FY2017 despite a 7.4% increase in revenue as gross profit margin decreased by one percentage point from 29.5% for FY2017 to 28.5% for FY2018. The decrease in gross profit margin is mainly due to the aggregate effect of rising labour costs, increasing price of raw materials for production and the appreciation of RMB against USD during FY2018 more than offset the positive contribution to the Group's gross profit margin through the enhancement of production efficiency.

Gross profit of VMHK Group for FY2019 decreased by 5.2% as compared to that for FY2018 despite a 0.4% increase in revenue as gross profit margin decreased by 1.6 percentage points from 28.5% for FY2018 to 26.9% for FY2019. The decrease in gross profit margin is mainly due to the increased labour and production costs.

Gross profit of VMHK Group for 1H2020 increased by 129.3% as compared to that for 1H2019 despite a 99.4% increase in revenue as gross profit margin increased by 4.4 percentage points from 29.4% for 1H2019 to 33.8% for 1H2020. The increase in gross profit margin is mainly due to the enhancement of product mix and greater economies of scale in production.

Other income, other gains and losses

Other income, other gains and losses for FY2017 of HK\$14.5 million mainly represented (i) the one-off impairment loss of investment in an associate of HK\$11.6 million on the investment in Ventific Holdings Pty Ltd (“**Ventific**”), a limited liability company registered in Victoria, Australia, due to prolonged delay with uncertain timeline of the product development for market launch and the severe financial difficulty experienced by Ventific; and (ii) a net exchange loss of HK\$2.9 million.

Other income, other gains and losses for FY2018 of HK\$3.5 million mainly represented the write back of other payables of HK\$3.9 million, offset by the net exchange loss of HK\$1.0 million.

Other income, other gains and losses for FY2019 of HK\$1.0 million mainly represented sundry income of HK\$1.0 million.

Other income, other gains and losses for 1H2020 of HK\$4.2 million mainly represented (i) sundry income of HK\$1.7 million; (ii) government subsidies of HK\$1.2 million due to the employment support scheme granted by the Hong Kong Government as a result of COVID-19; and (iii) royalty income of HK\$1.5 million.

Selling and distribution expenses

Selling and distribution expenses of VMHK Group were HK\$13.4 million, HK\$13.4 million, HK\$11.8 million and HK\$6.8 million for FY2017, FY2018, FY2019 and 1H2020, respectively.

Selling and distribution expenses as a percentage of revenue of VMHK Group was steadily decreasing from 3.7% for FY2017, to 3.4% for FY2018 and further to 3.0% for FY2019 due to an effective control in selling and distribution expenses implemented by VMHK Group. It decreased from 3.1% for 1H2019 to 1.8% for 1H2020 as selling and distribution expenses are relatively fixed in nature.

Administrative expenses

Administrative expenses of VMHK Group were HK\$53.4 million, HK\$56.7 million, HK\$58.8 million and HK\$39.3 million for FY2017, FY2018, FY2019 and 1H2020, respectively.

Administrative expenses as a percentage of revenue of VMHK Group remained relatively stable at 14.8%, 14.6% and 15.1% for FY2017, FY2018 and FY2019, respectively. It decreased from 16.0% for 1H2019 to 10.3% for 1H2020 as administrative expenses are also relatively fixed in nature.

Net profit

As a result of the above, VMHK Group recorded net profit of HK\$21.6 million, HK\$39.7 million, HK\$31.1 million and HK\$72.7 million for FY2017, FY2018, FY2019 and 1H2020, representing a net profit margin of 6.0%, 10.2%, 8.0% and 19.2%, respectively.

Property, plant and equipment

VMHK Group's property, plant and equipment amounted to approximately HK\$41.3 million, HK\$41.2 million, HK\$54.5 million and HK\$66.8 million as at 31 December 2017, 2018 and 2019, and 30 June 2020, respectively, and mainly comprised of plant and machinery, leasehold improvements and mould.

The increase in property, plant and equipment from HK\$41.2 million as at 31 December 2018 to HK\$54.5 million as at 31 December 2019 mainly represented the additional automation machinery and equipment, and expansion and upgrade of production areas to increase the overall production capacity.

The increase in property, plant and equipment from HK\$54.5 million as at 31 December 2019 to HK\$66.8 million as at 30 June 2020 mainly represented the purchase of additional machineries, tooling and equipment and the fitting of an additional floor of production area for the expansion of production capacity.

Human Resources

As at 31 December 2017, 2018 and 2019, and 30 June 2020, the total number of full-time employees of VMHK Group was 770, 764, 791 and 1,749, respectively. Staff costs of VMHK Group amounted to HK\$77.8 million, HK\$86.1 million, HK\$97.7 million and HK\$74.7 million for FY2017, FY2018, FY2019 and 1H2020, respectively.

Liquidity and financial resources and borrowings

VMHK Group's bank and cash balances amounted to approximately HK\$39.7 million, HK\$50.0 million, HK\$28.9 million and HK\$50.5 million as at 31 December 2017, 2018 and 2019, and 30 June 2020. Most of bank and cash balances were denominated in HK\$, US dollars (USD) and Renminbi (RMB).

The gearing ratio, which was calculated on the basis of the amount of total borrowings divided by the total equity attributable to owners of VMHK Group, was nil, 0.03, 0.07 and 0.07 as at 31 December 2017, 2018 and 2019, and 30 June 2020, respectively.

Capital structure

As at the Latest Practicable Date, the issued share capital of VMHK was HK\$14,889,321.

Significant investments

During FY2017, VMHK Group considered Ventific as a significant investment. VMHK Group held 20% interest in Ventific, VMHK 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). VMHK Group shared a loss of HK\$0.01 million in the consolidated statement of profit or loss during FY2017. As at 31 December 2017, due to prolonged delay in the product development for market launch and the severe financial difficulty experienced by Ventific, VMHK Group has made full impairment loss of the investment in Ventific as the recoverable amount is considered to be negligible.

As at 31 December 2018 and 2019, and 30 June 2020, VMHK Group held no major investment.

Material acquisitions and disposals

During FY2017, FY2018, FY2019 and 1H2020, VMHK Group had no material acquisitions or disposals of subsidiaries and associated companies.

Charges on the Group's assets

As at 31 December 2017, 2018 and 2019, and 30 June 2020, none of the assets of VMHK Group were pledged.

Foreign exchange exposure

While VMHK Group's costs and expenses are mainly denominated in HK\$ and RMB, there was a substantial amount of sales denominated in USD given the export-oriented nature of the business. Thus, any appreciation of HK\$ or RMB against USD may subject VMHK Group to increased costs and lower profitability. VMHK Group currently does not have a foreign currency hedging policy in respect of foreign currency transactions, assets and liabilities. The Group will monitor VMHK Group's foreign currency exposure closely and will consider hedging significant foreign currency exposure should the need arise.

Contingent Liabilities

As at 31 December 2017, 2018 and 2019, and 30 June 2020, VMHK Group did not have other contingent liabilities.

A. UNAUDITED PRO FORMA CONSOLIDATED STATEMENT OF ASSETS AND LIABILITIES OF THE ENLARGED GROUP

The accompanying unaudited pro forma consolidated statement of assets and liabilities of the Enlarged Group (the “**Statement**”) has been prepared to illustrate the effect of the proposed acquisition of the 19.9% equity interest in Vincent Medical Manufacturing Co., Limited (“**VMHK**”) and 3.98% equity interest in Vincent Medical (Dongguan) Mfg. Co. Ltd. (the “**Proposed Transaction**”), assuming the transaction had been completed as at 30 June 2020, might have affected the financial position of the Group.

The Statement is prepared based on the unaudited consolidated statement of financial position of the Group as at 30 June 2020 as extracted from the interim report of the Group for the six months ended 30 June 2020 after making certain proforma adjustments resulting from the Proposed Transaction.

The Statement is prepared based on a number of assumptions, estimates, uncertainties and currently available information, and is provided for illustrative purposes only. Accordingly, as a result of the nature of the Statement, it may not give a true picture of the actual financial position of the Group that would have been attained had the Proposed Transaction actually occurred on 30 June 2020. Furthermore, the Statement does not purport to predict the Group’s future financial position.

The Statement should be read in conjunction with the historical financial information of VMHK and its subsidiaries as set out in Appendix II of this circular and other financial information included elsewhere in this circular.

	Unaudited consolidated statement of assets and liabilities of the Group as at 30 June 2020	Pro forma adjustments	Unaudited pro forma adjusted consolidated statement of assets and liabilities of the Group immediately after completion of the Proposed Transaction
	<i>HK\$’000</i>	<i>HK\$’000</i>	<i>HK\$’000</i>
	<i>(Note 1)</i>	<i>(Notes 2 and 3)</i>	
Non-current assets			
Property, plant and equipment	80,600		80,600
Right-of-use assets	20,305		20,305
Goodwill	–		–
Other intangible assets	34,743		34,743
Investments in associates	4,775		4,775
Investments in joint ventures	16,130		16,130
Equity investments at fair value through other comprehensive income	40,521		40,521
Deferred tax assets	1,856		1,856
	<u>198,930</u>		<u>198,930</u>
Total non-current assets	<u>198,930</u>		<u>198,930</u>

	Unaudited consolidated statement of assets and liabilities of the Group as at 30 June 2020 <i>HK\$'000</i> <i>(Note 1)</i>	Pro forma adjustments <i>HK\$'000</i> <i>(Notes 2 and 3)</i>	Unaudited pro forma adjusted consolidated statement of assets and liabilities of the Group immediately after completion of the Proposed Transaction <i>HK\$'000</i>
Current assets			
Inventories	224,598		224,598
Trade receivables	191,485		191,485
Contract assets	9,397		9,397
Prepayments, deposits and other receivables	115,154		115,154
Bank and cash balances	<u>109,897</u>	(67,294)	<u>42,603</u>
Total current assets	<u>650,531</u>		<u>583,237</u>
TOTAL ASSETS	<u>849,461</u>		<u>782,167</u>
Non-current liabilities			
Lease liabilities	7,767		7,767
Deferred tax liabilities	<u>5,424</u>		<u>5,424</u>
Total non-current liabilities	<u>13,191</u>		<u>13,191</u>
Current liabilities			
Trade payables	145,274		145,274
Other payables and accruals	97,684	725	98,409
Lease liabilities	13,498		13,498
Borrowings	46,965		46,965
Current tax liabilities	<u>25,196</u>		<u>25,196</u>
Total current liabilities	<u>328,617</u>		<u>329,342</u>
Net current assets	<u>321,914</u>		<u>253,895</u>
Total assets less current liabilities	<u>520,844</u>		<u>452,825</u>

Notes:

1. The financial information of the Group is extracted from the unaudited consolidated statement of financial position as at 30 June 2020, as set out in the Group's interim report for the six months ended 30 June 2020.
2. The adjustment represents the purchase consideration approximately HK\$67,294,000 for the Proposed Transaction. The difference between the carrying amount of the non-controlling interest and the consideration is recognised directly in equity.
3. The adjustment represents the estimated transaction-related costs of approximately HK\$725,000, including accountancy, legal and other professional services related to the Proposed Transaction, which would be recognised in profit or loss. The adjustment has no continuing effect on the consolidated assets and liabilities of the Group in subsequent years.
4. Apart from the above, no other adjustment have been made to the pro forma financial information of the Group to reflect any trading result or other transactions of the Group entered into subsequent to 30 June 2020 where applicable.

B. ACCOUNTANTS' REPORT ON UNAUDITED PRO FORMA FINANCIAL INFORMATION

The following is the text of a report, prepared for the sole purpose of inclusion in this circular, from the independent reporting accountants, RSM Hong Kong, Certified Public Accountants, Hong Kong.

**To the Board of Directors of Vincent Medical Holdings Limited**

Dear Sirs,

We have completed our assurance engagement to report on the compilation of pro forma financial information of Vincent Medical Holdings Limited (the “**Company**”) and its subsidiaries (hereinafter collectively referred to as the “**Group**”) by the directors of the Company (the “**Directors**”) for illustrative purposes only. The pro forma financial information consists of the pro forma statement of assets and liabilities as at 30 June 2020 (the “**Statement**”) as set out in Appendix IV of this circular issued by the Company. The applicable criteria on the basis of which the Directors have compiled the Statement are described on pages IV–1 to IV–3 of Appendix IV of this circular.

The Statement has been compiled by the Directors to illustrate the impact of the proposed acquisition of the 19.9% equity interest in Vincent Medical Manufacturing Co., Limited and 3.98% equity interest in Vincent Medical (Dongguan) Mfg. Co. Ltd., held by a non-controlling shareholder, on the Group’s financial position as at 30 June 2020 as if the transaction had been taken place at 30 June 2020. As part of this process, information about the Group’s financial position has been extracted by the Directors from the Group’s condensed financial statements as included in the interim report for the six months ended 30 June 2020, on which a review report has been published.

Directors’ Responsibility for the Pro Forma Financial Information

The Directors are responsible for compiling the Statement in accordance with paragraph 29 of Chapter 4 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “**Listing Rules**”) and with reference to Accounting Guideline 7 “Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars” (“**AG 7**”) issued by the Hong Kong Institute of Certified Public Accountants (the “**HKICPA**”).

Our Independence and Quality Control

We have complied with the independence and other ethical requirements of the Code of Ethics for Professional Accountants issued by the HKICPA, which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behavior.

The firm applies Hong Kong Standard on Quality Control 1 and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Reporting Accountants' Responsibilities

Our responsibility is to express an opinion, as required by paragraph 29(7) of Chapter 4 of the Listing Rules, on the Statement and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the Statement beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

We conducted our engagement in accordance with Hong Kong Standard on Assurance Engagements 3420 "Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus" issued by the HKICPA. This standard requires that the reporting accountants plan and performs procedures to obtain reasonable assurance about whether the Directors have compiled the Statement in accordance with paragraph 29 of Chapter 4 of the Listing Rules and with reference to AG 7 issued by the HKICPA.

For purposes of this engagement, we are not responsible for updating or reissuing any reports or opinions on any historical financial information used in compiling the Statement, nor have we, in the course of this engagement, performed an audit or review of the financial information used in compiling the Statement.

The purpose of the Statement included in this circular is solely to illustrate the impact of a significant event or transaction on unadjusted financial information of the Group as if the event had occurred or the transaction had been undertaken at an earlier date selected for purposes of the illustration. Accordingly, we do not provide any assurance that the actual outcome of the event or transaction at 30 June 2020 would have been as presented.

A reasonable assurance engagement to report on whether the Statement has been properly compiled on the basis of the applicable criteria involves performing procedures to assess whether the applicable criteria used by the Directors in the compilation of the Statement provide a reasonable basis for presenting the significant effects directly attributable to the event or transaction, and to obtain sufficient appropriate evidence about whether:

- The related pro forma adjustments give appropriate effect to those criteria; and
- The Statement reflects the proper application of those adjustments to the unadjusted financial information.

The procedures selected depend on the reporting accountants' judgment, having regard to the reporting accountants' understanding of the nature of the Group, the event or transaction in respect of which the Statement has been compiled, and other relevant engagement circumstances.

The engagement also involves evaluating the overall presentation of the Statement.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion:

- (a) the Statement has been properly compiled on the basis stated;
- (b) such basis is consistent with the accounting policies of the Group; and
- (c) the adjustments are appropriate for the purposes of the Statement as disclosed pursuant to paragraph 29(1) of Chapter 4 of the Listing Rules.

Yours faithfully,

RSM Hong Kong
Certified Public Accountants

Hong Kong, 4 December 2020

1. RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Group. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief, the information contained in this circular 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 circular misleading.

2. DISCLOSURE OF INTERESTS OF DIRECTORS AND CHIEF EXECUTIVES

As at the Latest Practicable Date, to the best knowledge of the Directors and chief executives of the Company, the interests or short positions of the Directors and chief executives of the Company in the Share, underlying Shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) which had been notified to the Company and the Stock Exchange pursuant to Division 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO) or which were required to be disclosed pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or which were required to be notified to the Company and the Stock Exchange, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the “**Model Code**”) as set out in Appendix 10 to the Listing Rules were as follows:

Interests in Shares and underlying Shares

Name of Director	Capacity/Type of interest	Number of Shares (L) <i>(Note 1)</i>	Approximate percentage of shareholding <i>(Note 6)</i>
Mr. Choi Man Shing	Beneficial owner/Interest of controller corporations	386,191,890 <i>(Note 2)</i>	59.49%
Mr. To Ki Cheung	Beneficial owner	20,224,110 <i>(Note 3)</i>	2.73%
Mr. Koh Ming Fai	Beneficial owner/Interest of spouse	7,144,000 <i>(Note 4)</i>	0.79%
Mr. Fu Kwok Fu	Beneficial owner	6,970,000 <i>(Note 5)</i>	0.88%

Notes:

1. The letter “L” denotes the person’s long position in the Shares or the underlying Shares.
2. These interests represented:
 - (a) 4,002,000 Shares held by Mr. Choi, the chairman and an executive Director;

- (b) 381,939,890 Shares held by VRI. Mr. Choi holds 57.89% of the issued share capital of VRI. By virtue of the SFO, Mr. Choi is deemed to be interested in all the Shares in which VRI is interested; and
 - (c) 250,000 Shares held by VINCENT RAYA CO., LIMITED (永勝宏基集團有限公司) (“**VRHK**”). VRI holds the entire issued share capital of VRHK and therefore by virtue of the SFO, Mr. Choi is deemed to be interested in all the Shares in which VRHK is interested.
3. These interests represented:
- (a) 17,697,778 Shares held by Mr. To Ki Cheung, the Chief Executive Officer and executive Director of the Company;
 - (b) 526,332 options granted to Mr. To Ki Cheung, which are subject to certain vesting conditions pursuant to the pre-IPO share option scheme as adopted by the Company on 17 June 2016 (the “**Pre-IPO Share Option Scheme**”); and
 - (c) 2,000,000 options granted to Mr. To Ki Cheung, which are subject to certain vesting conditions pursuant to the share option scheme as adopted by the Company on 24 June 2016 (the “**Share Option Scheme**”).
4. These interests represented:
- (a) 4,941,166 Shares held by Mr. Koh Ming Fai, an executive Director;
 - (b) 174,000 Shares held by the spouse of Mr. Koh Ming Fai. By virtue of the SFO, Mr. Koh is deemed to be interested in all the Shares in which his spouse is interested;
 - (c) 528,834 options granted to Mr. Koh Ming Fai, which are subject to certain vesting conditions pursuant to the Pre-IPO Share Option Scheme; and
 - (d) 1,500,000 options granted to Mr. Koh Ming Fai, which are subject to certain vesting conditions pursuant to the Share Option Scheme.
5. These interests represented:
- (a) 5,691,166 Shares held by Mr. Fu Kwok Fu, an executive Director;
 - (b) 528,834 options granted to Mr. Fu Kwok Fu, which are subject to certain vesting conditions pursuant to the Pre-IPO Share Option Scheme; and
 - (c) 750,000 options granted to Mr. Fu Kwok Fu, which are subject to certain vesting conditions pursuant to the Share Option Scheme.
6. Approximate percentage calculated based on the 649,185,000 Shares in issue as at the Latest Practicable Date.

Save as disclosed above and to the best knowledge of the Directors, as at the Latest Practicable Date, none of the Directors or chief executives of the Company had any interests or short positions in the Shares, underlying Shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) which were required 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 were taken or deemed to have under such provisions of the SFO) or which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code.

3. DISCLOSURE OF INTERESTS OF SUBSTANTIAL SHAREHOLDERS

As at the Latest Practicable Date, so far as the Directors are aware, the following persons (other than the Directors or chief executives of the Company), were directly or indirectly, interested in 5% or more of the Shares or short positions in the Shares and the underlying Shares of the Company, which were required to be disclosed under provisions of Divisions 2 and 3 of Part XV of the SFO, or which were required, pursuant to Section 336 of the SFO, to be entered in the register referred to therein:

Interests in Shares

Name of Shareholder	Capacity/Type of interest	Number of Shares (L) <i>(Note 1)</i>	Approximate percentage of shareholding <i>(Note 4)</i>
Ms. Liu Pui Ching	Interest of spouse/Interest of controlled corporations	386,191,890 <i>(Note 2)</i>	59.49%
VRI	Beneficial owner/Interest of a controlled corporation	382,189,890 <i>(Note 3)</i>	58.87%

Notes:

- The letter "L" denotes the person/entity's long position in the Shares or the underlying Shares.
- These interests represented:
 - 4,002,000 Shares held by Mr. Choi. Mr. Choi is the spouse of Ms. Liu. By virtue of the SFO, Ms. Liu is deemed to be interested in all the Shares in which Mr. Choi is interested;
 - 381,939,890 Shares held by VRI. Ms. Liu holds 42.11% of the issued share capital of VRI. By virtue of the SFO, Ms. Liu is deemed to be interested in all the Shares in which VRI is interested; and
 - 250,000 Shares held by VRHK. VRI holds the entire issued share capital of VRHK and therefore by virtue of the SFO, Ms. Liu is deemed to be interested in all the Shares in which VRHK is interested.
- These interests represented:
 - 381,939,890 Shares held by VRI; and
 - 250,000 Shares held by VRHK. VRI holds the entire issued share capital of VRHK and therefore by virtue of the SFO, VRI is deemed to be interested in all the Shares held by VRHK.
- Approximate percentage calculated based on the 649,185,000 Shares in issue as at the Latest Practicable Date.

Save as disclosed above, as at the Latest Practicable Date, the Directors were not aware of any other corporation or individual (other than the Directors or chief executives of the Company) who had an interest or a short position in the Shares or underlying Shares of the Company as recorded in the register of required to be kept pursuant to Section 336 of the SFO.

4. DIRECTORS' SERVICES AGREEMENTS

Each of the Directors (except Mr. Guo Pengcheng and Prof. Yung Kai Leung) has entered into a service agreement commencing from 24 June 2016 with the Company for an initial fixed term of three years. Each of Mr. Guo Pengcheng and Prof. Yung Kai Leung has entered into a service agreement commencing from 1 February 2017 for an initial fixed term of three years. The service agreements may be terminated in accordance with the respective terms of the service agreements.

As at the Latest Practicable Date, none of the Directors has entered or proposed to enter into any service contracts with the Company or any member of the Enlarged Group other than contracts expiring or terminable by the Company or any member of the Enlarged Group within one year without payment of compensation (other than statutory compensation).

5. DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS, CONTRACTS OF SIGNIFICANCE AND ASSETS

As at the Latest Practicable Date, save as disclosed in previous sections in this circular and save for the continuing connected transactions under the following agreements:

- (i) the lease agreement dated 12 December 2018 entered into between VMHK as tenant and Vincent Raya Development Limited as landlord in relation to the renewal of lease of the premises located at Flat B2, 7th Floor, Phase 2, Hang Fung Industrial Building, 2G Hok Yuen Street, Hung Hom, Kowloon, Hong Kong;
- (ii) the lease agreement dated 12 December 2018 entered into between VMDG as tenant and 永勝 (東莞) 電子有限公司 (translated as "Vincent Raya (Dongguan) Electronics Co. Ltd.," "VRDG") as landlord in relation to the renewal of lease of various sites of an industrial complex located at Qiaolong Shuiaotou Industrial Zone, Tangxia Town, Dongguan City, the PRC;
- (iii) the lease agreement dated 12 December 2018 entered into between 東莞永勝宏基醫療器械有限公司 (translated as "Vincent Raya (Dong Guan) Medical Device Co., Ltd.") as tenant and VRDG as landlord in relation to the renewal of lease of the warehouse located at the 4th Floor, 45-46 Qiaolong Shabu Industrial Zone, Tangxia Town, Dongguan City, the PRC;
- (iv) the plastic and metal services agreement dated 12 December 2018 entered into between VMDG as purchaser and VRDG as supplier in relation to the renewal of the provision of certain plastic and metal components and painting and embossing services;
- (v) the lease agreement dated 20 December 2019 entered into between VMDG as tenant and VRDG as landlord in relation to the renewal of lease of the warehouse located at Factory 1 of Zone B industrial complex located at 45-46 Qiaolong Shabu Industrial Zone, Tangxia Town, Dongguan City, the PRC;

- (vi) the lease agreement dated 20 December 2019 entered into between 東莞永健康復器具有限公司 (translated as “Dongguan Vincent Rehabilitation Devices Company Limited”) as tenant and VRDG as landlord in relation to the renewal of lease of the production plant and warehouse located at Factory 2 of Zone B industrial complex located at 45–46 Qiaolong Shabu Industrial Zone, Tangxia Town, Dongguan City, the PRC; and
- (vii) the electronic assembly service agreement dated 20 April 2020 entered into between VMDG as purchaser and VRDG as supplier in relation to the provision of certain electronic assembly service (together, the “CCT Agreements”),

No transaction, arrangement or contracts of significance to which the Company or any members of the Enlarged Group was a party and in which any Director (or any entity connected with such Director) had a material interest, whether directly or indirectly, subsisted as at the Latest Practicable Date; and none of the Directors has any interest, direct, or indirect, in any assets which since 31 December 2019, the date to which the latest published audited consolidated accounts of the Group were made up, have been acquired or disposed of by or leased to any member of the Enlarged Group or are proposed to be acquired or disposed of by or leased to any member of the Enlarged Group.

6. DIRECTORS’ INTERESTS IN COMPETING BUSINESS

As at the Latest Practicable Date, to the best knowledge and belief of the Directors after having made all reasonable enquires, none of the Directors and their respective close associates were considered to have any interests in businesses which competed or were likely to compete, either directly or indirectly, with the businesses of the Group as required to be disclosed pursuant to the Listing Rules.

7. LITIGATION

As at the Latest Practicable Date, the Directors were not aware of any litigation or claims of material importance which were pending or threatened against any member of the Group.

8. EXPERT’S STATEMENTS

The following is the qualification of the expert who has given opinion contained in this circular:

Name	Qualification
RSM Hong Kong	Certified Public Accountants

As at the Latest Practicable Date, the above expert had given and has not withdrawn its written consent to the issue of this circular with the inclusion of its letter, advice and opinion and references to its name in the form and context in which it appeared.

As at the Latest Practicable Date, the above expert did not have any shareholding in any member of the Group or any rights (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

As at the Latest Practicable Date, the above expert did not have any interest in any assets which have been, since 31 December 2019 (being the date to which the latest published audited accounts of the Company were made up), acquired or disposed of by or leased to any member of the Group, or are proposed to be acquired or disposed of by or leased to any member of the Group.

9. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection at the principal place of business in Hong Kong of the Company at Flat B2, 7th Floor, Phase 2, Hang Fung Industrial Building, 2G Hok Yuen Street, Hung Hom, Kowloon, Hong Kong during normal business hours on any weekdays, except public holidays, for a period of 14 days from the date of this circular:

1. the Share Transfer Agreement;
2. the CCT Agreements;
3. the amended and restated memorandum and articles of association of the Company;
4. the annual reports of the Company for the financial years ended 31 December 2018 and 2019;
5. the accountants' report of VMHK Group from RSM Hong Kong, the text of which is set out in Appendix II to this circular;
6. the report by RSM Hong Kong on the unaudited pro forma financial information of the Enlarged Group, the text of which is set out in Appendix IV to this circular;
7. the service contracts as referred to under the paragraph headed "4. Director's Services Agreements" in this Appendix;
8. the written consent as referred to under the paragraph headed "8. Expert's Statements" in this Appendix; and
9. this circular.

10. MISCELLANEOUS

- The company secretary of the Company is Ms. Tsui Lai Ki Vicki, who is an associate member of The Hong Kong Institute of Chartered Secretaries and The Chartered Governance Institute (formerly known as The Institute of Chartered Secretaries and Administrators) in United Kingdom.
- In case of any inconsistency, the English text of this circular shall prevail over its Chinese text.